ACKMAN'S HOLY WAR ON HERBALIFE

BY ROGER PARLOFF P. 166

FORTUNE

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50 MOST POWERFUL WOMEN

HEY, IS THAT TAYLOR SWIFT? P. 97

FORMER SPY P. 118

INCLUDING 27 CEOs WHO RUN COMPANIES WORTH A COLLECTIVE $1 TRILLION P. 90

THE CHANGE AGENT AT CVS P. 124

APPLE'S RETAIL REVO-LUTION P. 100

PLUS

FROM SECRETARY TO HOLLYWOOD STUDIO BOSS P. 80

HOW GOOGLE BECAME *THE* TALENT FACTORY FOR FEMALE EXECS P. 110

THE QUEEN OF PHARMA—AND THE INVESTORS WHO HATE HER P. 132

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FORTUNE
features
Volume 172 Number 4

Michael Johnson, Herbalife CEO

Most Powerful Women 2015

THIS PAGE:
PHOTOGRAPH BY MICHAEL LEWIS

HOW CAN WE MAKE SENSE OF VAST AMOUNTS OF COMPLEX AIRLINE DATA WITH A MYRIAD OF VARIABLES, CRUNCHING 6 HOURS OF INTENSE CALCULATIONS INTO 1 MINUTE, SO THAT HIGHLY VALUED CUSTOMERS LIKE STEVE MURRAY OF BROOKLYN DON'T SPEND HOURS WAITING AT THE AIRPORT FOR A DELAYED FLIGHT THAT WILL EVENTUALLY BE CANCELED, WHEN HE COULD HAVE STAYED HOME CELEBRATING HIS DAUGHTER'S SEVENTH BIRTHDAY?

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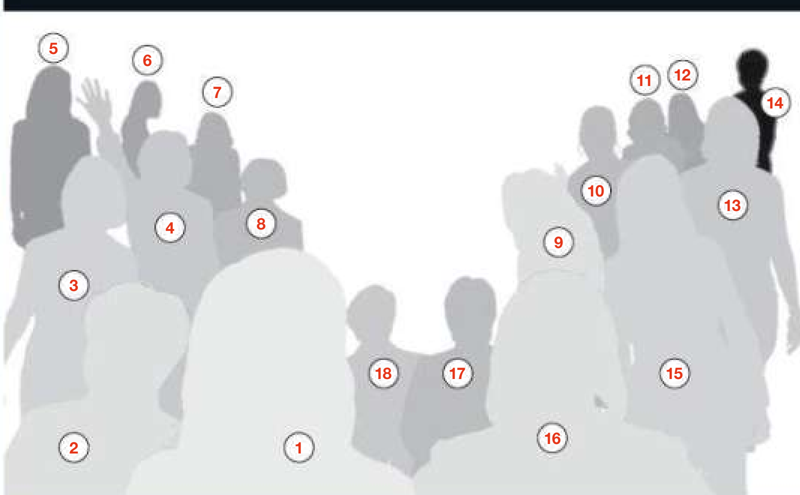
FORTUNE *departments*

Volume 172 Number 4



ON THE COVER
Clockwise: 1. Mary Barra; 2. Indra Nooyi; 3. Helena Foulkes; 4. Meg Whitman; 5. Kathleen Kennedy; 6. Taylor Swift; 7. Ruth Porat; 8. Rosalind Brewer; 9. Sheryl Sandberg; 10. Ursula Burns; 11. Susan Wojcicki; 12. Marissa Mayer; 13. Heather Bresch; 14. Phebe Novakovic; 15. Angela Ahrendts; 16. Ginni Rometty; 17. Marillyn Hewson; 18. Ellen Kullman

PHOTO-ILLUSTRATION BY
ANTHONY VERDUCCI

TYPOGRAPHY BY
SINELAB

CORRECTIONS
"U.S. Stores Are About to Pay Up for Security" (Sept. 1, 2015) misidentified Mallory Duncan as the head of the National Retail Federation. He is the organization's SVP and general counsel. A caption in "Trading Touchdowns for Terroir" (Sept. 1, 2015) misidentified Brock Huard as his brother Damon. And our Fastest-Growing Companies list (Sept. 1, 2015) erroneously identified two companies as customers of EPAM. *Fortune* regrets the errors.

1. BILL PUGLIANO—GETTY IMAGES; 2. MARK PETERSON; 3. JOE PUGLIESE; 4. DAVID PAUL MORRIS—GETTY IMAGES; 5. VINCENT SANDOVAL—FILMMAGIC/GETTY IMAGES; 6. KEVIN MAZUR—BMA 2015/WIREIMAGE/GETTY IMAGES; 7. CHIP SOMODEVILLA—GETTY IMAGES; 8. SARAH BENTHAM—GETTY IMAGES; 9. BARRY CHIN—BOSTON GLOBE/GETTY IMAGES; 10. JEMAL COUNTESS—GETTY IMAGES FOR THE WOMEN'S MEDIA CENTER; 11. STEPHEN LOVEKIN—FILMMAGIC FOR YOUTUBE/GETTY IMAGES; 12. MIKE PONT—GETTY IMAGES; 13. ANDREW HETHERINGTON; 15. JOE PUGLIESE; 16. BEN BAKER; 17. WESLEY MANN; 18. COURTESY OF FORTUNE CONFERENCES

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Bill Ackman's Holy War


Hedge fund titan Bill Ackman is putting it all on the line to bring down Herbalife.

ACTIVIST INVESTORS PLAY an important role in keeping business honest. They provide a check on free-spending CEOs and counter the inherent tendency of big companies to drift into bureaucratic sclerosis.

In his nearly three-year battle against Herbalife, however, activist Bill Ackman has done something entirely new. His goal has not been to improve the company but to annihilate it. And he is using every tool at his disposal—his wealth, his connections, his cozy relations with my colleagues in the press—to achieve that goal.

Conventional wisdom holds that hedge fund billionaires are driven by greed. Something else moves Ackman. If motivated by greed alone, he would have taken his profits and bolted long ago. Herbalife is his holy war, his white whale. He must kill it, whatever it takes, and he is utterly convinced of the righteousness of his cause.

He is righteous, but is he right? Herbalife has clearly engaged in some sleazy business practices in its history. But most of those seem to be in the past. Ackman claims to be working on behalf of those abused by Herbalife's multilevel-marketing business model. But the victims are surprisingly difficult to find. He calls it a pyramid scheme. But pyramid schemes are by definition unsustainable, while Herbalife is in its 35th year.

Ackman is a smart guy, and perhaps he knows something we don't. Even so, who made him judge, jury, and executioner? We have healthy—some would say too healthy—regulatory agencies in this country whose job it is to police such things. Do we need a billionaire hedge fund investor in the game as well?

Don't take my word for it. Read Roger Parloff's deeply reported, scrupulously fair, and beautifully told account of this very bizarre corporate saga. Then draw your own conclusion (page 166).

AND SPEAKING OF activist investors, you will find that the name Nelson Peltz shows up three times in this year's list of the Most Powerful Women in business (page 90). He has tussled with a trio of our top 10: Pepsi CEO Indra Nooyi (No. 2), DuPont CEO Ellen Kullman (No. 5), and Mondelez CEO Irene Rosenfeld (No. 9).

Rosenfeld fell to the combined pressure of Peltz and Ackman when she broke Kraft into two companies in 2011, and remained CEO of the global business. Now Peltz, who won a seat on her board, is at it again, with Ackman, pressuring her to cut costs or increase revenue.

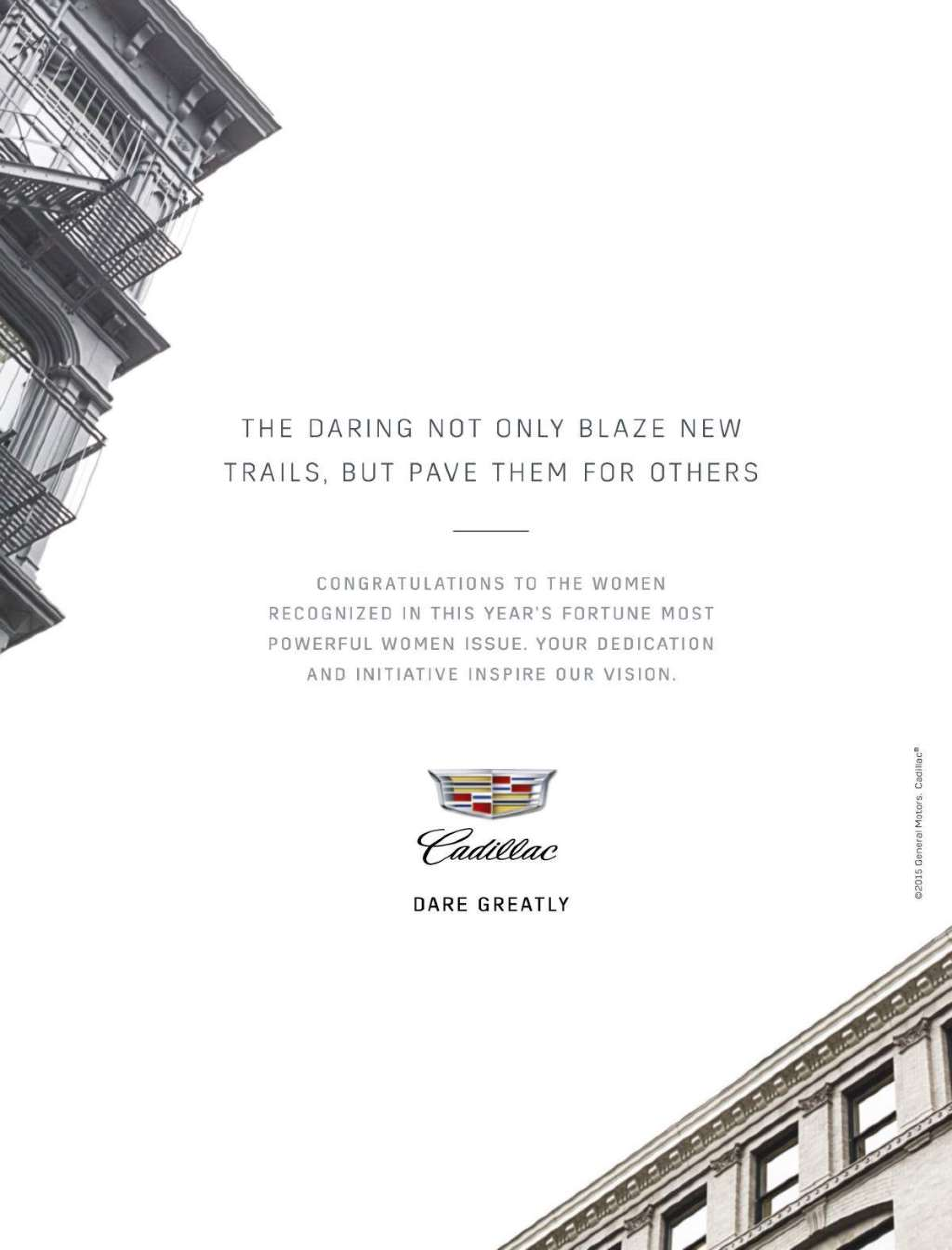
Nooyi cut a better deal, sticking to her strategic guns and giving a Peltz ally, former Heinz CEO Bill Johnson, a seat on her board. Kullman took the toughest line. She refused to cave in and has become something of a folk hero among the CEO crowd for defeating Peltz in a shareholder vote.

My colleague Pattie Sellers has raised the question of whether Peltz has a problem with women. After all, only 24 of the CEOs on the *Fortune* 500 list are female. Why have three of them made his bull's-eye? Perhaps it is a coincidence. In any event, this is clear: The women who make it to the top of our Most Powerful Women list are tough. They can hold their own in a street fight.

ALAN MURRAY
Editor
@alansmurray


DuPont CEO Ellen Kullman has faced off with activist Nelson Peltz.

ACKMAN: MISHA FRIEDMAN—THE NEW YORK TIMES/REDUX; KULLMAN: RICHARD DREW—AP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CLOSER LOOK

By Erin Griffith

THE UNICORN ECONOMY

Lavishly funded startups and the companies that serve them are changing the business landscape in surprising ways.

Shown here, a lounge area at Dropbox, a cloud storage company founded in 2007 and now valued at $10.4 billion—making it a unicorn 10 times over, with a value just shy of the GDP of Nicaragua. The company has raised more than $1 billion to date and now boasts office space that proves it's not afraid to spend it.

IN JANUARY, when *Fortune* put a unicorn on its cover to represent the new age of private enterprises with billion-dollar valuations, we thought it might signal a peak. Instead, unicorns have been proliferating like rabbits. The pace and size of funding announcements have only intensified in 2015—even as jitters in the broader stock market stoke fears of a startup bubble. When our list debuted in January, we counted at least 80 of these so-called startup unicorns. Since then we've added 59 to the list. In 2010 startups raised 29 rounds of funding worth $100 million or more; in the first half of this year alone there were almost four times as many.

The resulting startup gold rush has had profound and

PHOTOGRAPH BY BRUCE DAMONTE

PRICEY REAL ESTATE

Dropbox's offices may be a case study in why West Coast office rents are soaring. The company's current space is near San Francisco's AT&T park, and it's developing an additional 292,000 square feet of space in the city's SoMa district.

HIGH DESIGN

Geremia Design, founded by 32-year-old Lauren Geremia, created Dropbox's interiors, including this mural made from—what else?—23,000 Ping-Pong balls.

CHIC ACCESSORIES

A Foscarini Twiggy floor lamp from YLighting, a Bay Area company whose quirky-chic fixtures can also be found at WeWork, a startup unicorn that provides office space for other startups.

THIS EMPLOYEE WAS PROBABLY EXPENSIVE

Fortune 500 companies beware: Well-funded startups not only drive up employee salaries, they poach too. Over the past two years Dropbox has hired high-ranking executives from Google, Microsoft, and Twitter.

THE NEW MINIMALISM

These wooden work desks were built by Ohio Design, a San Francisco–based furniture maker that has seen its sales rise 25-fold in recent years thanks in part to unicorn clients like Uber, Airbnb, and Square.

wide-ranging effects. Some credit the boom with driving up San Francisco rents, which are set to surpass New York City's this year for the first time since the dotcom bubble. Others say it's making talent in the Bay Area just as pricey: Yelp CEO Jeremy Stoppelman recently said the unicorn boom had contributed to higher payroll costs. The only option? "Hold the dam on that whole thing and ride it out," he says.

Meanwhile, businesses that cater to startups are thriving, including actual catering companies Cater2.me and ZeroCater, which supply employees at billion-dollar startups like GitHub and Eventbrite with gourmet fare. Because of their mandate for breakneck growth at all costs, startups have specialized needs, creating opportunities for unicorn-friendly service providers.

Take Ohio Design, a San Francisco company that makes artisanal office furniture for clients like Square and Uber. Sales have shot up 25-fold during this boom, says founder David Pierce. "I feel like we're building the picks and shovels for the gold miners," he says.

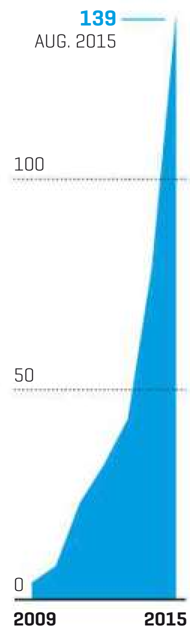
Ohio Design isn't alone. Custom Spaces, a commercial real estate firm that has worked with unicorns like Airbnb and Dropbox, has thrived by working specifically with new companies, which tend to outgrow offices quickly. Same for TaskUs, a startup that has raised $15 million itself to help the likes of Uber outsource customer service and back-office support to the Philippines. HomePolish, an interior-design company that counts Blue Apron and Gilt Groupe as clients, regularly fields startups' requests for phone booths, bar carts, and Ping-Pong tables.

But no corner of the economy has felt the unicorn effect as profoundly as venture capital. Last year VCs plowed $56.4 billion into startups, the most since 2001, according to CB Insights. Increased competition for the hottest deals means firms must distinguish themselves with startup-friendly services. The savviest ones now also provide PR, recruiting, marketing, and design assistance to portfolio companies, along with lavish rooftop parties and CEO summits in the Hamptons. Last year, in a bid to appear as pro-entrepreneur as possible, Felicis Ventures pledged to side with founders in any decision, forfeiting voting rights. There's even a new firm called Unicorn Capital Partners, poised for what it calls "the start of the Age of Unicorns." If this is a tech bubble, investors don't seem terribly concerned.

WHAT GOES UP

THE RISKS OF BEING A UNICORN

GLOBAL NUMBER OF UNICORN COMPANIES



Since January, 59 new startups got their unicorn horns—with brand-new billion-dollar valuations. Only three went public, and none were acquired.

This isn't how venture capital is supposed to work. Even if you assume that $1 billion valuations for zero-revenue companies make sense, the purpose of funding them is still to generate a return. And the longer unicorns wait to go public—enabled by both the JOBS Act and VC tourists like mutual funds—the more risk funds assume. At some point investors in VC funds are going to demand their money.

Qualtrics CEO Ryan Smith said at *Fortune*'s Brainstorm Tech conference this year that getting kudos for a large fundraise is "like congratulating someone for taking on their mortgage." And we all know what happens when too many mortgages are written without paying enough attention to how they're going to be paid off. —*Dan Primack*

NOT ALL UNICORNS ARE CREATED EQUAL

YOUR STARTUP MYTHOLOGY-JARGON CHEAT SHEET*

MY LITTLE PONY
A startup worth $10 million or more

CENTAUR
A startup worth $100 million or more

DECACORN
A startup worth $10 billion or more

QUINQUAGINTACORN
A startup worth $50 billion or more (see Uber)

UNICORPSE
A former unicorn, now valued at less than $1 billion

*HONEST, WE DIDN'T MAKE THESE UP.

CHART SOURCES: CB INSIGHTS; FORTUNE RESEARCH. ICONS BY MARTÍN LAKSMAN

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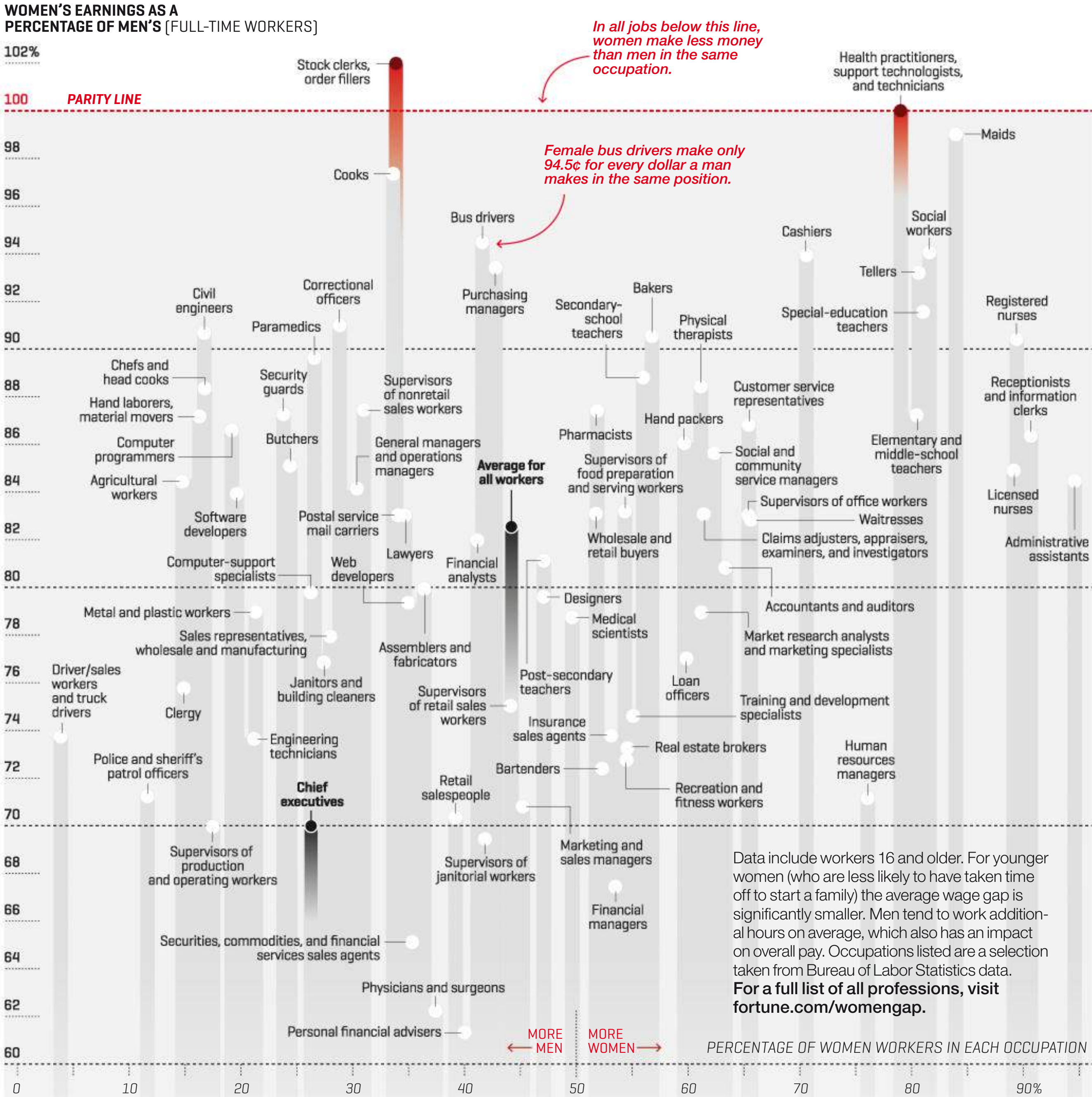
THE GENDER WAGE GAP

The normal caveats apply: Women take more time out for child rearing, for instance—but the inescapable fact remains that they make less than men in all but two of the occupations for which the U.S. publishes data. Gender parity in wages still has a long way to go.

WOMEN'S EARNINGS AS A PERCENTAGE OF MEN'S [FULL-TIME WORKERS]



Data include workers 16 and older. For younger women (who are less likely to have taken time off to start a family) the average wage gap is significantly smaller. Men tend to work additional hours on average, which also has an impact on overall pay. Occupations listed are a selection taken from Bureau of Labor Statistics data.
For a full list of all professions, visit fortune.com/womengap.

GRAPHIC SOURCE: BUREAU OF LABOR STATISTICS

GRAPHIC BY NICOLAS RAPP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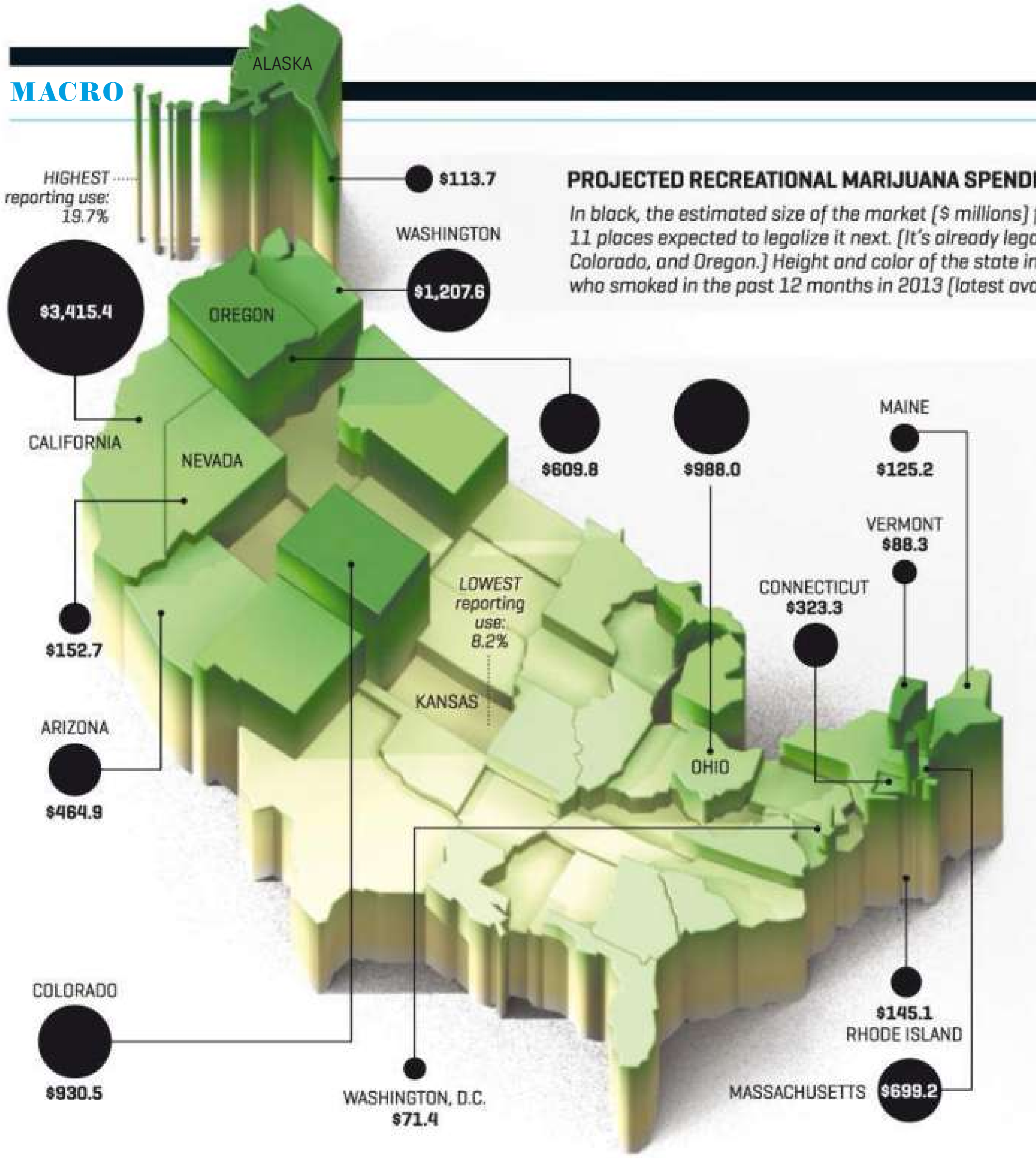

PROJECTED RECREATIONAL MARIJUANA SPENDING IN 2020

In black, the estimated size of the market [$ millions] for nonmedical marijuana in the 11 places expected to legalize it next. [It's already legal in Alaska, Washington, Colorado, and Oregon.] Height and color of the state indicate the percentage of people who smoked in the past 12 months in 2013 [latest available data].

MARKET HIGHS

The United States of Weed

THE ERA OF legal pot is upon us. And the proof lies in all the green that green will yield: By 2020 the states likeliest to legalize are projected to host a multi-billion-dollar market around the plant—a potentially compelling argument for the rest to follow suit. —*Tory Newmyer*

GRAPHIC SOURCE: NEW FRONTIER DATA AND RESEARCH ANALYSIS WITH MODELING PROVIDED BY MEE INC.

ALARMISM

THE EMERGING-MARKETS CRISIS THAT WASN'T

IT ONLY LOOKS LIKE INVESTORS ARE FLEEING DEVELOPING ECONOMIES.

IT'S BEEN a scary summer for emerging markets. In August the MSCI benchmark collapsed by 9%, fueling fears beyond stock losses—chiefly that foreign investors were cutting bait.

The financial press sounded the alarm about the problem after the 15 largest emerging economies faced bigger capital outflows in the first quarter of this year than they had during the same period of the financial crisis in 2009. All that hot money rushing out of a country could destabilize financial systems and wreak havoc with its currency—leading to full-blown crises.

But that's probably not what's really happening.

While the outflows are real, according to Emerging Advisors Group, much of it has originated from a single source: China. Flows from other emerging markets this year appear relatively normal. The group's president, Jonathan Anderson, a respected emerging-markets watcher formerly of UBS, concludes that "there is no EM-wide capital flows problem."

But is there one in China? Yes, Anderson says, though even there it's not as bad as it sounds. Hot money isn't escaping China, nor are rich officials and elites running off with cash to Australia. Instead, many inside the country are leaving China's currency for the soaring dollar.

What's more, EM stock outflows have peaked, says Mirae Asset Securities. Unless the numbers get a lot worse, don't panic over emerging markets. —*Scott Cendrowski*

MAP BY NICOLAS RAPP

WELL ARMED

The LG Watch Urbane, the Genuine Smartpiece. Equipped with Android Wear, it can send texts, deliver notifications, give turn-by-turn directions, sync and play your favorite tracks, and more. With its interchangeable leatherstraps and classic gold or silver finishes, it proves the future of innovation can indeed be timeless.

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Genuine Smartpiece

LG Watch Urbane

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LG

STEAK IS BACK (BUT HOLD THE CHAMPAGNE)

Today's austerity-era steak houses serve more than just beef, and sales are sizzling. *By John Kell*

THE STEAK house has long been considered a leading economic indicator. When times are good, financiers make deals over expense-account dinners. When times are bad, it's carryout.

So it's good news, then, that Americans' animal spirits—that is, Americans' appetite for animals and spirits—seem to be rising. For the past three years steak houses have averaged 6.5% sales growth, according to Technomic. That's as high as it was before the crash and far outpaces the 3.6% growth at regular full-service restaurants.

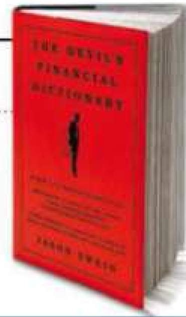
But today's American steak house is a different beast than before the financial crisis. Instead of relying solely on pricey plates of filet mignon, menus are packed with burgers, tacos, salads, and seafood. At Outback Steakhouse, 71% of the chain's locations are now open for lunch. Even opulent Brazilian chain Fogo de Chão has recently tested a more affordable Sunday lunch option. "Steak places are doing promotions for $7 to $9 burgers and fries," says NPD restaurant-industry analyst Bonnie Riggs. "That isn't too bad of a price point."

As the sector hums along, three steak houses have gone public in as many years. Most are underperforming the market, though, because of high beef prices and industrywide competition from fast-casual chains. Fogo de Chão chief Larry Johnson says he's not worried, despite his stock dropping 26% since its June IPO. The fundamentals are strong, he says; "Americans love steak."

COURTESY OF FOGO DE CHÃO

REFERENCE

WHAT YOU MEAN WHEN YOU SAY 'BULL'



In his new book of alternative financial definitions, Jason Zweig explains some of Wall Street's favorite terminology. Here, a sampling.

SYNERGY • *n.* Often the only thing one company gets when it buys another. Because no one, including any of the executives involved, knows what synergy is, it seldom turns out to have been worth paying for.

DOVE • *n.* A central banker who believes that an economy that hasn't responded to anything else the central bank has done will respond when it cuts interest rates.

HAWK • *n.* A central banker who believes that an economy that hasn't responded to anything else the central bank has done will respond when it raises interest rates.

MODEL • *v.* To write complex mathematical formulas that capture every conceivable variable in every possible situation—except, that is, the one that is about to happen next, destroying the value of the portfolio built on the model. As a noun, "model" can best be defined as a "weapon of math destruction."

POTENTIAL CONFLICT OF INTEREST • *n.* An actual conflict of interest.

SHORT-TERM • *adj.* On Wall Street, 30 seconds or less—as opposed to **LONG-TERM,** which is 30 seconds or more.

BULL • *n.* A person who believes that an asset will go up in price, a belief often based only on the fact that the person happens to own it. A bull in full stomp is almost incapable of absorbing any evidence suggesting the asset might go down instead.

Madhu | 2012 Winner, Bangalore, India

Nora | 2013 Winner, Cairo, Egypt

Girciline | 2014 Winner, Belo Horizonte, Brazil

All photos © Goldman Sachs

The Goldman Sachs & *Fortune*

GLOBAL WOMEN LEADERS AWARD

CELEBRATING THE POWER OF WOMEN

Fortune and Goldman Sachs are pleased to partner and present the annual Goldman Sachs & *Fortune* Global Women Leaders Award. This year's award will go to two international business leaders who have participated in the *Fortune*/U.S. State Department Global Women's Mentoring Partnership or the Goldman Sachs *10,000 Women* initiative, have applied learnings to their businesses, and have effectively demonstrated the multiplier effect of investing in women. The award will be announced October 13 at the *Fortune* Most Powerful Women Summit in Washington, DC.

The *Fortune*/U.S. State Department Global Women's Mentoring Partnership enables rising-star women from developing countries to work with leaders in the *Fortune* Most Powerful Women community.

The Goldman Sachs *10,000 Women* Initiative is a campaign to foster economic growth by providing women entrepreneurs around the world with a business and management education and access to capital. The initiative has reached women from 56 countries through a network of 100 academic, nonprofit, and bank partners. In 2014, in partnership with International Finance Corporation (IFC), *10,000 Women* launched a $600 million finance facility to enable 100,000 women entrepreneurs to access capital. To date, the facility has completed nine transactions, totaling $180 million in nine countries, that will reach 25,000 women. In July 2015, President Obama announced a $100 million commitment by the Overseas Private Investment Corporation to the facility to help *10,000 Women* and IFC close the global credit gap for women entrepreneurs.

To learn more about this program visit:
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Before becoming Rhode Island's first female governor, Raimondo founded its first VC fund.

GLOBAL POWER PROFILE

TINY STATE, BIG FIGHTER

Rhode Island's new Democratic governor, Gina Raimondo, is taking on some of politics' most toxic battles—and she's winning.

By Dan Primack

RHODE ISLAND Gov. Gina Raimondo is touring the back room of a silk-screening shop in East Providence, talking up how her new budget helps small businesses. The air is humid and sweet like a laundromat's, but the blazer-clad Raimondo doesn't seem to mind. She smiles as she spots a run of black T-shirts hurtling down the folding rack, each one with bright pink lettering that says, DESIGNED TO BE BRAVE. It's a coincidence, the shop's owner says, but with Raimondo's history, no one would be surprised if it weren't.

Last November the 44-year-old became the first Democratic governor in Rhode Island in more than two decades, but she won after angering some party allies. In Raimondo's previous role as state treasurer, her pension overhaul slashed cost-of-living increases for public employees, increased their retirement age, and moved them from a defined-benefit plan into a hybrid system that included defined contribution. Unions were livid, and the resulting contest drew national attention (both admiring and furious) to the state, as well as to the little-known former venture capital exec who pushed the reforms into existence.

For Raimondo, who attended Harvard, Yale, and Oxford (as a Rhodes Scholar), the politics of reform were subservient to the math. She originally ran for treasurer after hearing that budget cuts were threatening local libraries, and became convinced that the state pension system—then funded at just 48%, second-worst in the nation—was patient zero in Rhode Island's economic malaise. She barnstormed the state, telling a story of actuarial tables and the failure of both politicians and unions. At the same time, she increased the pension funds' exposure to hedge funds and other high-fee investments, leading some to accuse her of selling out cops and teachers.

When her reforms passed, unions sued. Voters, however, felt differently, sending Raimondo to the governor's office shortly after. In June the state settled the bulk of the lawsuits—keeping most of her core reforms in place after more than a year of mediations.

"There is so much hand-wringing and talking in politics," Raimondo said, during a conversation in her State House office. "My approach is to define the problem and, if we can all agree on that, then I'm willing to compromise a ton on ways to fix it."

It's working: Her recent budget passed unanimously in the state's House. Designed to address unemployment and growth, it eliminated a sales tax on commercial energy use, added a tax to Airbnb-type vacation rentals, lowered the minimum corporate tax rate, and increased K–12 spending (including funding for school construction and an all-day-kindergarten mandate).

Besides being held up as a model for other cash-strapped governments, the state's recent successes have fueled speculation about Raimondo's future. Asked about it, she demurs—mostly. "I can't imagine myself doing anything in the legislative branch." But? "I really like putting a team together and getting things done in the executive branch." Just one more reason Rhode Island is worth watching.

SCOTT EELLS—BLOOMBERG VIA GETTY IMAGES

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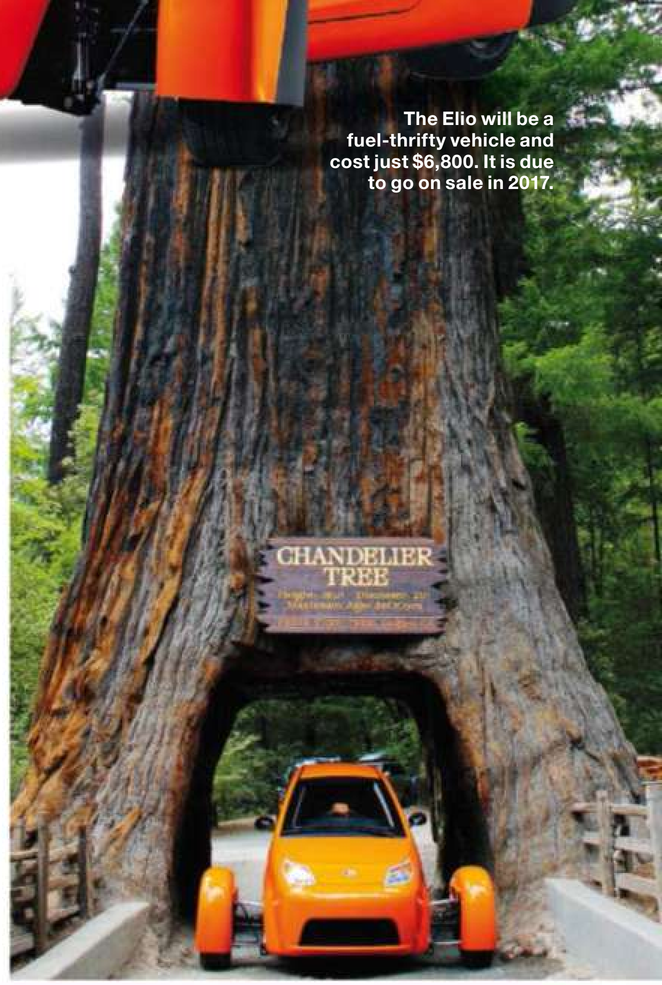
L.A. AUTO SHOW

10 Truly Innovative Auto Startups

THESE COMPANIES MAY CHANGE HOW CARS ARE BUILT, BOUGHT, AND DRIVEN. *By Sue Callaway*

THE LINE BETWEEN the technology and automotive industries continues to blur, and more startups are creating services and products that could transform the transportation sector. Which are the most promising? The Los Angeles Auto Show's Connected Car Expo recently assembled executives from Microsoft, Google, AT&T, and others to vet dozens of companies. Here are the 10 chosen as the hottest startups. "[They] impressed us with their unique perspective, the strength of their vision, and their flat-out innovation," says Michelle Avary, lead advisory board member. "These companies are beyond just cool—we think they will help make the entire automotive industry better."

ELIO MOTORS
Founder Paul Elio has engineered a super-efficient, low-cost ($6,800) three-wheeled vehicle. Legally classified as a motorcycle, it seats two people front to back, making it half as wide as a typical car and therefore twice as aerodynamic. The result: gas mileage of 84 mpg. Following the Tesla model, Elio, based in Detroit, will sell through retail stores. When you need service, you can take it to any of the 600 Pep Boys shops across the U.S. The vehicle has successfully undergone all National Highway Traffic Safety Administration (NHTSA) crash-testing. Production begins in 2016; already there are 45,000 orders.



The Elio will be a fuel-thrifty vehicle and cost just $6,800. It is due to go on sale in 2017.

CAPIO
This Silicon Valley startup's voice-recognition technology can be contained on a chip, so it provides high-quality results without the need for an Internet connection. Using pattern recognition, Capio's algorithms also can identify extraneous background noises and learn to ignore them. Capio says it can embed its chip into any existing vehicle and will begin delivering to a major automotive supplier later this year.

ICONS BY MARTÍN LAKSMAN; PHOTOS COURTESY OF ELIO MOTORS

HIGH MOBILITY

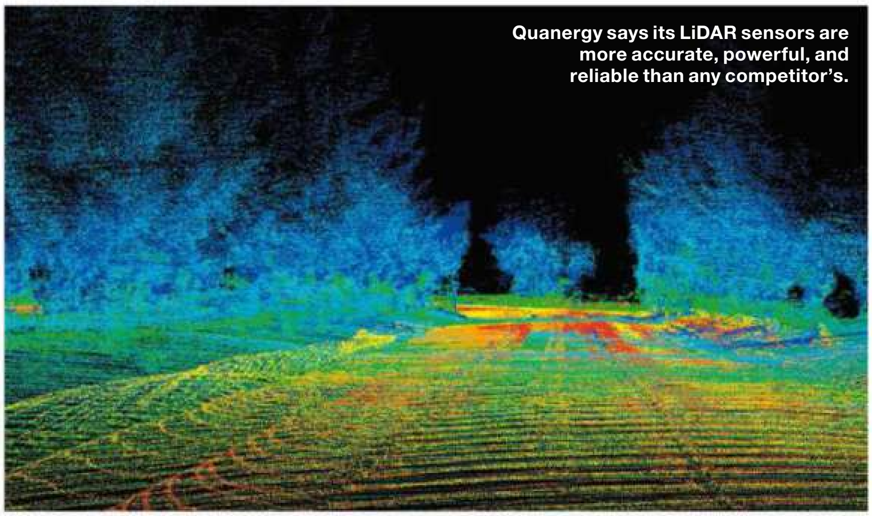
This German firm has developed software for automakers that enables users to make themselves "visible" to their cars via a smart device. So any vehicle you get into knows who you are and how you like to drive, and it can read real-time information, such as your heart rate from a Fitbit and other wearable devices. BMW featured High Mobility's systems at the Consumer Electronics Show this year to demonstrate exactly how a smartwatch could be used to operate an i3 with gesture control. The software will come to market through car companies and connected-car service providers.

TRILUMINA

The Albuquerque company makes powerful semiconductor lasers that help self-driving cars "see" and thus react appropriately. From an area the size of your thumbnail, TriLumina's sensors deliver five kilowatts of optical power—the equivalent of 80 high-beam headlights. TriLumina expects to be in market with its solid-state LiDAR sensors in 2017.

HOP SKIP DRIVE One of the problems working parents face is, Who will drive their kids to after-school activities? Three Los Angeles professionals who are also mothers created an Uber-style app that rigorously screens applicants' driving records and child-care experience. The company currently services the greater Los Angeles area and plans to expand to other U.S. cities.

Founders (from left) Carolyn Yashari Becher, Joanna McFarland, and Janelle McGothlin have created a safe car service for kids.



Quanergy says its LiDAR sensors are more accurate, powerful, and reliable than any competitor's.

QUANERGY Self-driving cars rely on several types of sensors, including light detection and ranging (LiDAR) systems, in order to instantaneously monitor their position on the road and distance from other objects. LiDAR systems are pricey, costing from $8,000 to $100,000 or more per unit. Quanergy, based in Sunnyvale, Calif., says it has invented a version that costs $100 and is more reliable and accurate than its competitors'. Mercedes has already signed on as a partner.

DRIVERSITI

Using the multiple sensors embedded in a cellphone, Driversiti's software replaces a car's active safety systems. It is designed to learn your driving habits and alert you if there's a sudden and potentially dangerous change, such as sloppy steering. It can also identify hazardous road conditions and feed that information in real time to the cloud. Driversiti says it has the only patent for crash detection by a smart device. It will begin licensing its software to businesses such as car clubs, trucking giants, and car manufacturers next year.

NEBULA SYSTEMS

Nebula Systems' Mech 5 is a B2B cloud-based platform that securely aggregates all the real-time data that cars generate today through their electronic control units (ECUs). Nebula says its software can also remotely diagnose and fix faults in any vehicle's ECU. Roadside assistance companies, marketers, fleet managers, and telematics suppliers are among Nebula's customers.

GETAROUND

This San Francisco startup created an app that enables car owners to earn extra money by letting screened drivers rent their vehicle when it's not in use. Renters input their driver's license and credit card information, then search for the type of car they want; the app unlocks it for them. Insurance, roadside assistance, and screening are included. The company has rolled out in the Bay Area, Chicago, Portland, Ore., and Washington, D.C.; New York City is next.

SOBER STEERING

Located in Waterloo, Ontario, Sober Steering has devised a touch-based biosensor technology that can be installed in a steering wheel to read a driver's blood-alcohol level. Sober Steering's Zero Tolerance system is already available for fleet vehicles such as school buses, trucks, and construction equipment. A passenger-vehicle version is expected to come to market next year.

HOP SKIP DRIVE: JEFF BENDER

An investor in Huaibei can't bear to look at the carnage in stock prices on Aug. 24.

XIE ZHENGYI—IMAGINECHINA

FORTUNE GLOBAL FORUM

THE NEW FINANCIAL ORDER

Flustering as they were to many investors, August's global stock market gyrations were actually a sign of a system that works.

By Geoff Colvin

INVESTORS FROM Manila to Munich to Manhattan were aghast at the spectacle of market contagion during August's global stock-price meltdown—all those markets and many more took a heavy hit. What's an investor to do when a bursting bubble in China can wipe trillions of dollars from the value of assets on every continent?

It's a good question, and it has an answer: Celebrate. Not that a plunge in net worth makes anyone want to raise a glass (a bottle, maybe). But the worldwide rout is evidence of an emerging financial order that is, on the whole, a good thing. Here's how to think about it.

We increasingly live in one big capitalist world. Obviously some countries aren't there yet, and a few don't want to be. National economies don't move in sync and probably never will. That's not what matters most. What counts is that the world's capital is more willing and able than ever to go anywhere, moving around the globe as comfortably as Carlos Ghosn or Beyoncé. A given investor's mutual fund money at a given moment might plausibly be in any or all of the world's stock markets.

The evidence is striking. Global foreign-exchange trading is around $5 trillion a day. Worldwide trading in goods and services is about 1% of that amount. In other words, all that money on the move is 1% trade, 99% finance—investors operating globally.

The result is that market contagion is no longer a concept that makes much sense. To say that stocks in London dropped because of contagion from the Shanghai market is like saying that stocks on Nasdaq fell because of contagion from the New York Stock Exchange. In one case the two exchanges are on opposite sides of the planet, while in the other case they're separated by a 20-minute subway ride. But none of them are anyplace, really, except in a bunch of servers, receiving buy and sell orders from other computers around the world. It is, increasingly, one big system.

But hold on—China clearly had a stock bubble and bust, which clearly moved markets around the world. How is that not contagion? Well, maybe it is, but then "contagion" is just an alarming word for an ordinary phenomenon. Bubbles inflate in asset classes all the time, and the inevitable bust always has broader repercussions. A widespread fear now is that the global economy's interconnectedness makes these classic patterns bigger and more dangerous. But the August crash, frightening though it was for a few days, wasn't anything special. U.S. markets fell further in 2011, and European markets did so in 2008. Even the Shanghai market rocketed higher and plunged deeper from June 2006 to October 2008.

In the one big system, markets aren't any more or less rational than before. The madness of crowds still happens. Investing fashions come and go. Making markets bigger or smaller doesn't make investors wiser. But a bigger system does bring in more participants with different perspectives, motivations, and information. They may behave like a crazed crowd for a while, but broad diversity can also bring steadiness. It's worth noting that the August correction in U.S. stocks—a drop of roughly 10% from recent highs—lasted all of three days.

A more global financial system certainly isn't perfect, as we learned in the financial crisis, and it won't banish bad times. But it brings more liquidity, more opportunity, better price discovery, and more economic efficiency. That's progress. Why call it by a nasty name?

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EXECUTIVE READ

Should Leaders Be Modest?

NOT ALWAYS. SELF-PROMOTION AND SELF-CONFIDENCE, EVEN WHEN UNWARRANTED, CAN OFTEN MAKE PEOPLE BETTER PERFORMERS.

In his new book, Leadership BS, *Stanford professor and* Fortune *columnist Jeffrey Pfeffer takes aim at the rapidly growing leadership industrial complex, a multibillion-dollar business of books, blogs, business school courses, and training sessions that, he argues, is based more "on hope than reality, on wishes rather than data, on beliefs instead of science." He urges a new approach, based not on anecdotes but on actual measurement of results. The book is published by HarperBusiness. What follows is excerpted.* —ALAN MURRAY

BILL BRADLEY, THE retired National Basketball Association star and former New Jersey senator, summarized the sentiments of many leadership "experts" when he said, "Leaders should be collaborative, modest, and generous." Jim Collins, in his bestselling management book *Good to Great,* also argued that "personal humility" is a trait that distinguished "good to great" leaders.

But few leaders, particularly leaders of large organizations, actually seem to be very modest.

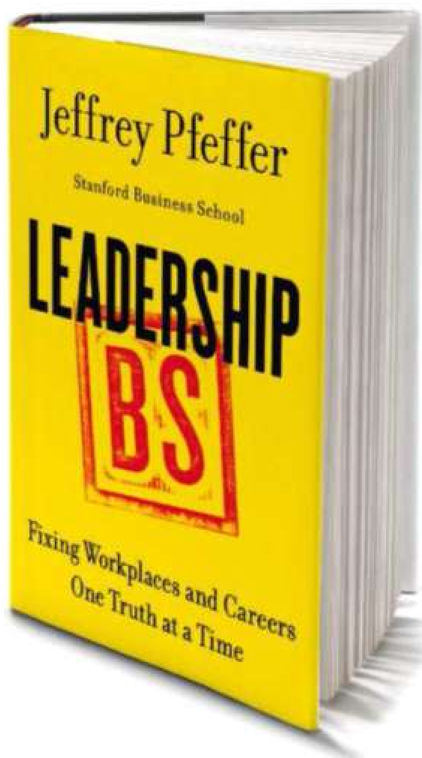
Consider Donald Trump, now running for President, with a net worth approaching $4 billion. Trump tweets constantly, is all over the media, had his own television show, and, most famously, names all his buildings after, of course, himself.

Trump is an extreme case, but he is not alone. Many of the most well-known and well-regarded CEOs—including Bill Gates of Microsoft, Steve Jobs of Apple, and Jack Welch of General Electric—exhibited narcissistic traits and behaviors. Immodesty in all its manifestations—narcissism, self-promotion, self-aggrandizement, unwarranted self-confidence—helps people attain leadership positions in the first place and then, once they're in them, positively affects their ability to hold on to those positions, extract more resources (salary), and even helps in some, although not all, aspects of their performance on the job.

We know a lot about narcissism. A study of 392 CEOs during the financial crisis found that because narcissists tend to be self-absorbed and overconfident, firms led by more narcissistic CEOs did worse at the beginning of the crisis. However, because narcissists have a stronger bias for action and risk-taking—again a result of their higher levels of self-confidence—the study also found that more-narcissistic CEOs led firms to bounce back more successfully during the post-crisis recovery.

If organizations really wanted to select modest leaders, it would be fairly easy to do so. The Narcissistic Personality Inventory is a validated scale, and it can be used as part of a personality assessment. The fact that most companies not only don't use such selection techniques but their selection decisions also seemingly reflect precisely the opposite preference—a preference for immodest, grandiose, and narcissistic leaders—stands as an important barrier to having leaders who might create workplaces quite different from most contemporary work environments.

"MANY OF THE MOST WELL-KNOWN AND WELL-REGARDED CEOS—BILL GATES, STEVE JOBS, JACK WELCH—EXHIBITED NARCISSISTIC TRAITS AND BEHAVIORS."



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Know Your Net Worth
How Do You Stack Up?

Why Knowing Your Net Worth Is Essential

If you are close to retirement or already retired, knowing how much you are worth is essential. It will help you realistically determine the kind of retirement you can actually afford as well as help you select the best financial strategies to grow, protect and distribute your wealth.

How Do You Stack Up?

You'll find out where you rank in terms of total net worth and liquid net worth compared to others. Plus, if you have liquid net worth of over $500,000, you'll learn of some investment options that are now open for you as well as which ones are probably not right for someone of your financial standing and achievement.

Learn the Real and Hidden Retirement Investment Risks That Most People Ignore...Until It Is Too Late

In *Your Net Worth* we also share what we consider to be the five biggest wealth killers. You'll learn what they are and how to avoid them and their consequences. Surprisingly, some of these threats to your wealth are exactly what some financial "experts" recommend! Finding this out could save you thousands of dollars and prevent you from making some financial decisions that could threaten your retirement lifestyle.

Don't Run Out of Money in Retirement

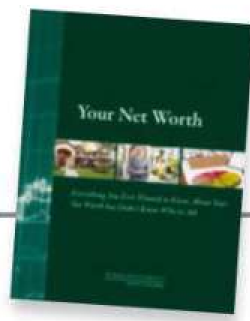
With people living longer, with health care and long-term care costs continuing to rise and with general inflation eating away at your wealth in a slow but insidious way, now is the time to learn what steps you should and shouldn't take. It pays to understand the dangers as well as the options.

About Fisher Investments and Ken Fisher

Fisher Investments is a money management firm serving successful individuals as well as large institutional investors.

With over $65 billion* in assets under management and with a track record of over 35 years in bull and bear markets, Fisher Investments uses its proprietary research to manage money for investors.

Ken Fisher, Founder, CEO and Co-Chief Investment Officer, has been *Forbes'* "Portfolio Strategy" columnist for over 30 years and is the author of more than 10 financial books, including 4 *New York Times* bestsellers.



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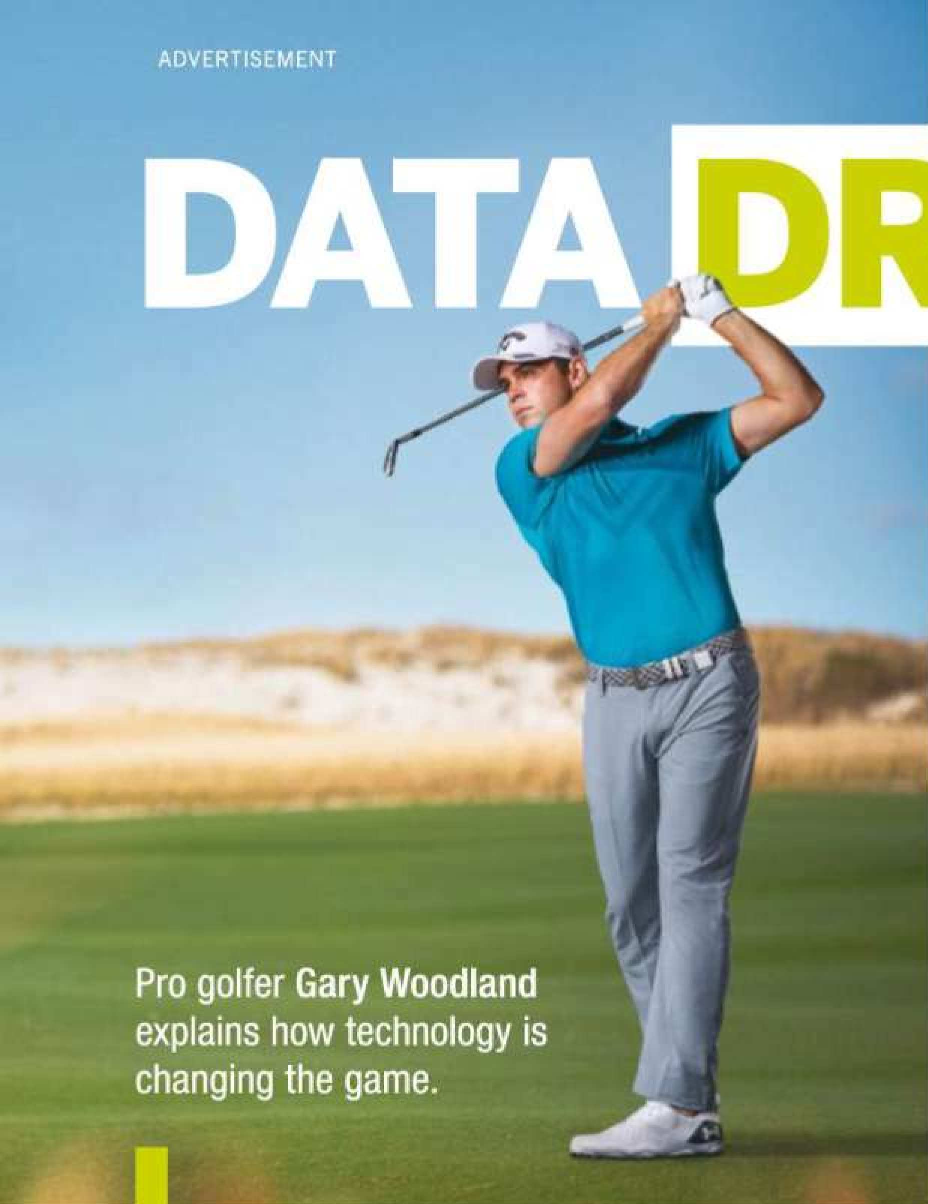

Pro golfer **Gary Woodland** explains how technology is changing the game.

THE PGA TOUR HAS been at the forefront of the data revolution in sports over the last decade, investing heavily in technology that tracks every shot on every hole. This revolution took a quantum leap forward when CDW became involved in the TOUR's ShotLink technology in 2008. A network of computers, lasers, and more than 600 data points allows pros like Gary Woodland to visualize their games like never before. For Woodland, ShotLink is much more than a computer program—it is one of the most valuable tools in his bag.

How would you describe ShotLink? I would say ShotLink is a coach. I have numerous coaches, whether it's a trainer, a nutritionist, a swing coach, a mental coach. ShotLink is my statistical coach. Every coach I work with brings in information and value to my team, and ShotLink is no different. It provides unbelievable information and statistics, and allows me to sit down and work on what I need to improve to get me to reach my ultimate goals.

Who helps you dissect and analyze that raw data? My swing coach. He does the statistical breakdown of ShotLink for me. I look at it from a very broad standpoint of how I was driving the ball, how I was putting. But he breaks it down to what we need to do to get better, what I struggled with, and whether we need to change the game plan for this upcoming week. His breakdown is more in depth, and he looks at it from a standpoint of what we need to do today to get better tomorrow.

Is there one particular facet of your game that ShotLink has improved? Putting. ShotLink has really taken it to a new level. Growing up, the stats were all down on a scorecard. It was how many fairways I hit, how many greens I hit, and how many putts I had—those were really the only three stats. Now I have everything broken down to the inch. It's breaking it down physically to how I'm putting from different ranges, how I'm putting against the rest of the field that day. It's so much more detailed, so much more specific. That allows us to be better in our practice sessions as well.

Do you use ShotLink data during tournaments? There are times if I'm struggling, I will look at other guys' statistics for the round to see how they are playing certain holes. I'll go click on certain guys and see how they attacked it, if they were being aggressive or more conservative on certain holes, especially holes that have given me trouble in the past. I look day to day to see if there's anything I can do to get better and give myself the best chance to win on a daily basis.

RYAN O'KEEFE (UNDER ARMOUR)

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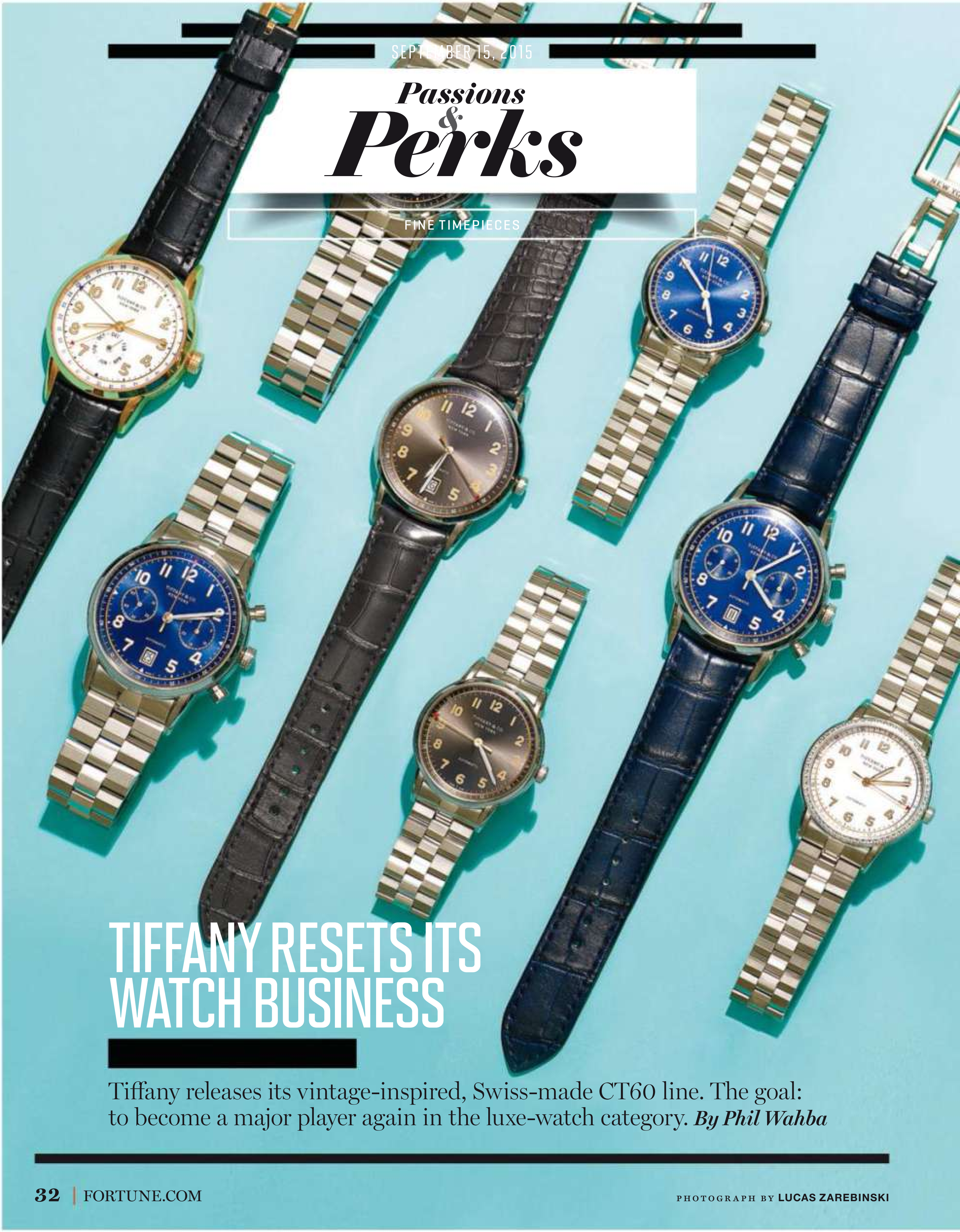
Passions & Perks

FINE TIMEPIECES



TIFFANY RESETS ITS WATCH BUSINESS

Tiffany releases its vintage-inspired, Swiss-made CT60 line. The goal: to become a major player again in the luxe-watch category. *By Phil Wahba*

PHOTOGRAPH BY LUCAS ZAREBINSKI

IT'S NOT EVERY DAY that a 178-year-old company gets to be an upstart again.

Yet that's exactly what high-end jeweler Tiffany & Co. is, following the recent launch of its CT60 line of luxury watches. It is Tiffany's first major new collection of timepieces in years.

Four years ago, a bitter feud with onetime partner Swatch ended a joint venture that had been intended to make Tiffany a major luxury-watch player again. Now the New York City company is attempting yet another comeback, this time with the CT60 collection.

The CT60 pieces take their name from the initials of company founder Charles Lewis Tiffany and the 60 seconds in a New York minute. They range in price from $4,250 to $19,000 and hark back to Tiffany's long watchmaking history.

The line is inspired by the Tiffany watch that President Franklin Delano Roosevelt got for his birthday in 1945 and that he is seen in photographs wearing at the Yalta Conference a few months before the end of World War II.

"It's really about focusing on something we already have in our DNA since the very beginning of Tiffany," says Nicola Andreatta, a third-generation Swiss watchmaker and the vice president of Swiss watches for Tiffany. Two years ago, Tiffany hired him to rebuild its watch business nearly from scratch, with a new Switzerland operation.

Indeed, Tiffany has deep roots in the world of horology, going all the way back to 1847, a decade after the store's founding. The statue of Atlas holding a clock above the entrance of its iconic flagship store in Manhattan, first installed in 1853 when the shop was at another location, was for decades how countless New Yorkers set their watches.

COURTESY OF TIFFANY & CO.

In 1868, Tiffany made America's first stopwatch. And six years later Tiffany also established a beachhead in Swiss watchmaking when it opened a four-story manufacturing facility in Geneva.

At stake in this new effort is winning a bigger piece of the $27.8 billion global luxury-timepiece market, one that Euromonitor International expects will grow 20% a year through 2019.

To get there, Tiffany faces a tough slog. It is placing big bets on China, and the dramatic stock market slump there has raised questions about consumers' willingness to spend on indulgences such as jewelry. Despite its rich watchmaking history, Tiffany garners only about 1% of sales from watches (largely made up of selling some Patek Philippe super-high-end watches), down from a modern-day peak of 9% in the late 1990s. At that point the company made the decision to focus more on its growing diamond and engagement jewelry business, and its watch business faltered as a result. By 2007, Tiffany hatched a new plan to revive its watch business, enlisting Swatch. The partnership eventually fell apart in a flurry of lawsuits and recriminations, with each claiming the other wasn't pulling its weight.

If Andreatta gets his way, watch sales will get back up past that earlier watermark and hit 10% of total revenue a decade from now, enough to make Tiffany a top 15 player in the world.

No self-respecting luxury house with global ambitions can afford to remain essentially absent from such an important category. And in truth, Tiffany has long been there, Andreatta points out: It has been making watches for more years than even Rolex and Cartier.

This time around, though, the philosophy has been different, with Tiffany pursuing a much more hands-on approach. One of the appeals of the Swatch arrangement was that Tiffany could tap its partner's distribution firepower and leading position in parts manufacturing. But it lost a lot of control.

So the company will handle everything from design to operations to manufacturing quality to after-sales service. Tiffany is also looking into buying small components makers and plans to open its own assembly plant soon.

Stylistically, for CT60, Tiffany opted for simplicity, focusing on its American heritage, particularly its New York roots, to distinguish itself. For instance, the hours are written in Arabic—not Roman—numerals. Some include the words "New York" on the face and have numbers covered in *poudré* (gold or silver powder, depending on the model) to give the numbers subtle relief.

This watch, given to FDR in 1945, was the inspiration for the Tiffany & Co. CT60 collection.

"It has a strength and clarity to it that is very American," says Jon King, a senior vice president responsible for the management of product and store design.

What was important in this first collection was neither to go too high-end and compete directly with the Rolexes of the world nor to have too many bells and whistles. Tiffany simply doesn't have that kind of credibility yet with serious Swiss-watch buyers anyway, Andreatta says.

Perhaps not. But slowly and surely, Tiffany appears to be registering on watch buyers' radars again. In 2014 it was the 37th-most-sought-after luxury-watch brand among 62 brands tracked by Digital Luxury Group, which measures the number of searches performed on the Google and Baidu search engines. And since the launch in April, its ranking is creeping up in Switzerland, a key indicating market.

Designing and making the watches in Switzerland has been essential in reestablishing Tiffany's bona fides among watch aficionados ready to spend thousands on a timepiece.

"The step we need to make at this very moment is to become a proper watchmaker and not a jeweler making watches," says Andreatta. F

A SMARTER SUPPLY CHAIN | LINKED THROUGH THE CLOUD

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SOMETIMES IT SEEMS THAT SUPPLY CHAINS HAVE LITTLE room left for game-changing improvement. Offshoring, nearshoring, consolidating, streamlining—it's all been done. Recently, however, the new "gold" of supply chain management has been discovered.

It's as meaningful as a new Northwest Passage, except this time the route doesn't lead through the Arctic. It goes through the cloud, offering access to new information, analyzing crucial variables, and phasing out yesterday's costly, imprecise guesswork.

Cloud computing, which involves running software over the Internet rather than on a personal computer's hard drive, is equipping industry leaders to turn big data into bigger margins. Up-to-the-minute data for crucial supply chain variables is leading to stronger balance sheets—for those who know how to take advantage of what's available.

"Companies that excel at big data and advanced analytics can unravel forecasting, logistics, distribution, and other problems that have long plagued operations," says a Boston Consulting Group report released earlier this year. "Those that do not will miss out on huge efficiency gains. They will forfeit the chance to seize a major source of competitive advantage."

Capitalizing on these opportunities involves investing in new technology and bringing advanced analytical techniques to bear, according to BCG. Companies doing so are slashing transportation costs by as much as 15% and cutting inventory by up to 30%, which leads to margin growth to the tune of 1%–2%.

The approach is twofold, and deceptively simple. First, tap troves of information recently made accessible; then analyze that data to make optimal decisions in supply chain design and management. That's how customers of LLamasoft, a leading supplier of technology and expertise for supply chain modeling, are reducing costs and improving efficiency by 10% per project, on average.

"The design of your supply chain puts a ceiling on how efficient and cost-effective you can be," says Toby Brzoznowski, co-founder and executive vice president at LLamasoft. "The big

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BOSTON CONSULTING GROUP

opportunities for savings are in designing your supply chain to support the business strategy."

As a result, supply chain management software revenues outpaced nearly all other software markets in 2014, according to IT research firm Gartner. They grew 10.8%, making this a $9.9 billion market.

Falling computing prices have helped drive sales growth, according to Rick Blasgen, CEO of the Council of Supply Chain Management Professionals. Today's personal computers have so much muscle to crunch massive data sets and run software-as-a-service applications that companies sense they're getting a bargain. Then, when companies start using their new tools, the cost savings continue.

"You're assigning carriage to a shipment as quickly as possible, which often allows you to get a better price from a very tight-capacity market for transportation," Blasgen says.

To be sure, simply acquiring access to software isn't going to work magic.

"You still have to forecast, produce, and ship it downstream," Blasgen says. "Those physical aspects still exist. It's just that the information attached to it—that you use to make decisions—is much better."

A cloud-powered supply chain is ultimately only as good as the strategic and tactical choices that decision-makers settle on. To enhance that process, industry leaders are turning to experts to help them maximize what the cloud can do for their supply chains. Top manufacturers work with Penske Logistics, a leading supply chain management solutions provider, in their quests for competitive advantages and cost savings.

"You have to be strategic," says Tom McKenna, senior vice president of engineering and technology at Penske Logistics. Supply chain improvements are "not 100% attributable to the use of these technologies. It's usually in combination with: How am I now able to change the way I physically design my network?"

Penske Logistics uses cloud-based technology to make sure suppliers are shipping exactly what's needed and receivers know precisely when to expect it, delivering transparency in real time. Computer users can simultaneously see critical factors that can change how goods flow across the globe. This includes real-time adjustments to orders that need to be shipped from suppliers to plants or shipments of finished goods from plants or distribution centers.

Armed with that kind of insight, Penske Logistics uses cloud-based technology to help suppliers ensure that they are shipping exactly what's needed, and that receivers know precisely when to expect it. Such fine-tuning puts a scalpel to expedited shipping costs, like pricey air freight, that can otherwise add up fast. The bottom line: Transportation costs for manufacturing customers of Penske Logistics have fallen by 7%–15%, according to McKenna.

Getting contracts in place is faster with the cloud, too. A firm with goods to ship will learn at the speed of online bidding which carriers or suppliers can meet the specs for a project, and take it from proposal to done deal.

"You're able to accelerate how quickly you can get that activity done," says McKenna. "You're also able to get quick feedback from your carrier base and what they want to tell you about their bid."

Once a supply chain's design starts reflecting optimal configurations, as supported by data, the improvement process only continues.

Companies working with LLamasoft have access to living models of the end-to-end supply chain that can be used to evaluate "what if" scenarios that take into account factors ranging from weather and fluctuations in commodity prices to geopolitical risks and ethical sourcing considerations. LLamasoft customers such as McCormick & Company, a food industry player with $4 billion in sales and a supply chain serving customers in 27 countries, use the models to cut costs, reduce risk, and improve sustainability without wasting money and time on flawed supply chain experiments.

Analysts and decision-makers no longer need to wait. Within minutes, they can run LLamasoft models detailing possible savings if they were to make a specific design change or implement a new operations function. Llamasoft's 64-bit operating systems churn though data, generating results in a fraction of the time that would have been required to perform similar functions just a few years ago.

As companies come to see supply chains as reservoirs of competitive advantage, technology is playing a key role in reducing risk, costs, and mistakes—making the cloud as a virtual Northwest Passage to unparalleled efficiency.

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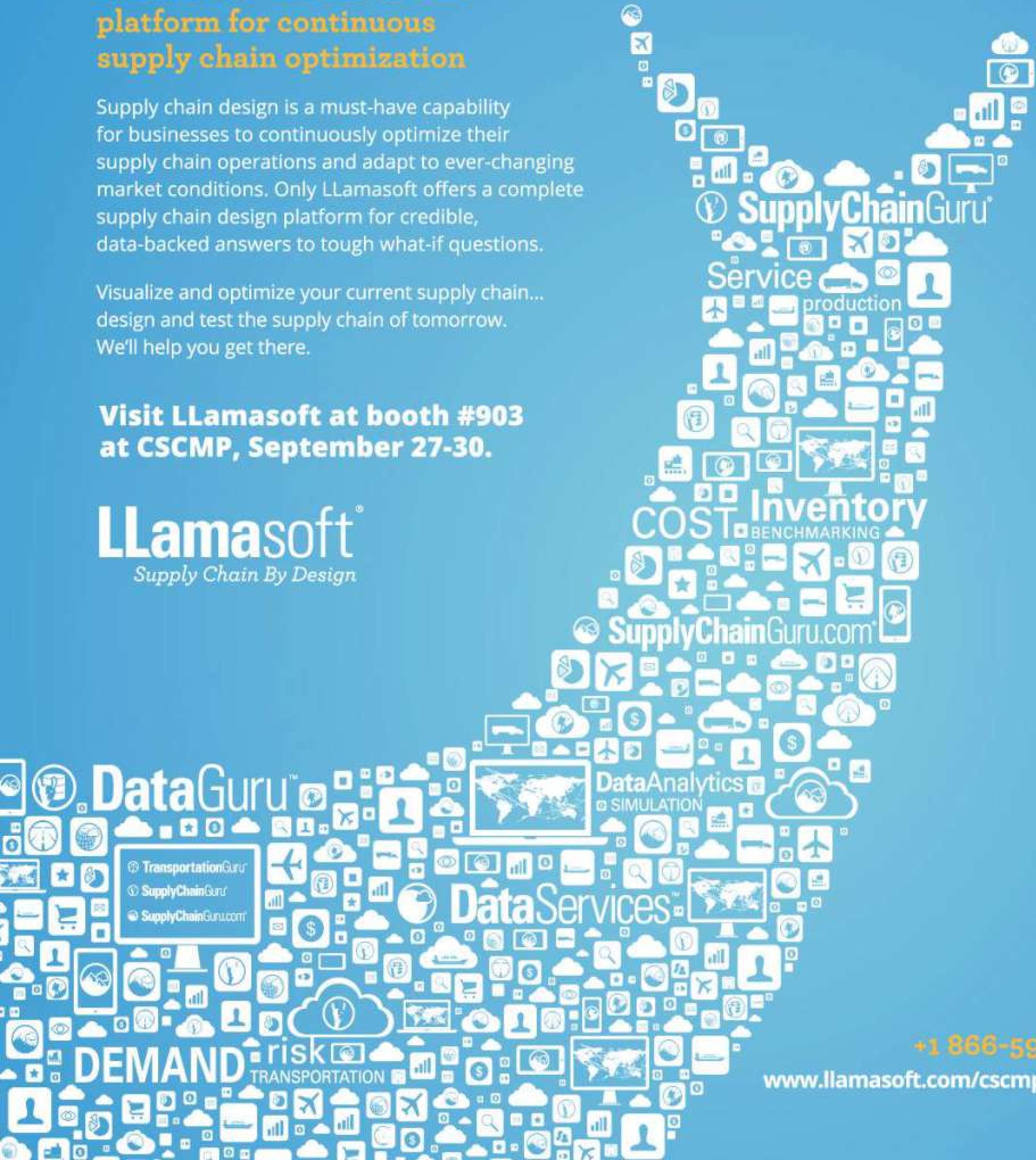

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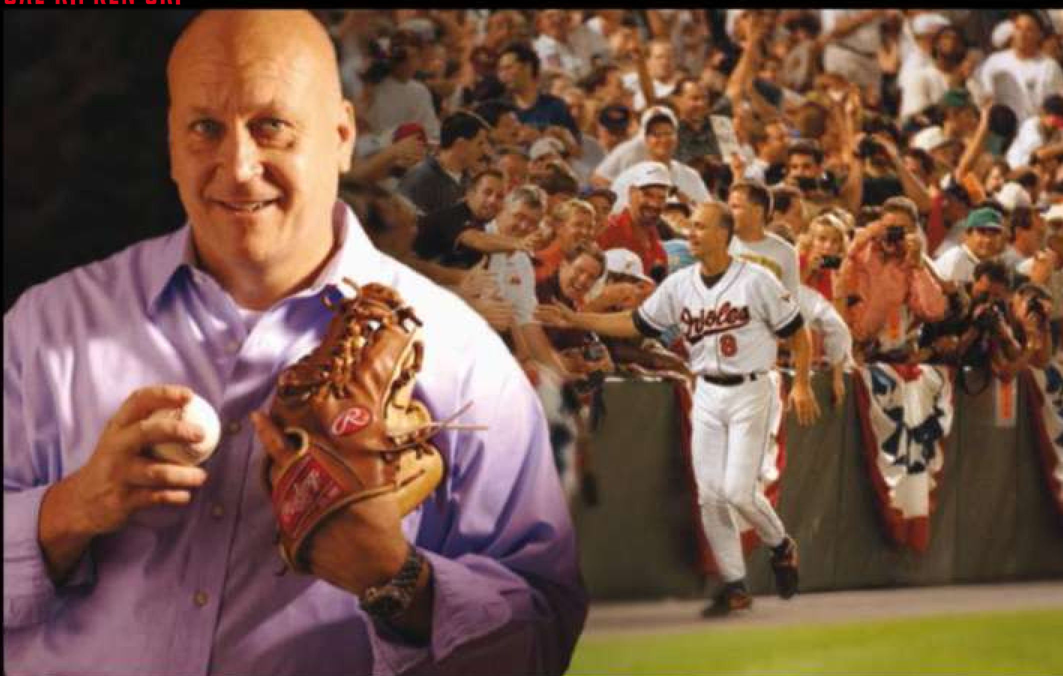

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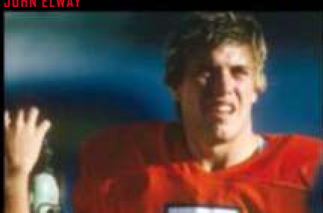

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Venture

HOW I GOT STARTED

Barbara Bradley Baekgaard at the headquarters of Vera Bradley in Roanoke, Ind.

BAGGING SUCCESS AT VERA BRADLEY

BARBARA BRADLEY BAEKGAARD co-founded a handbag and apparel company out of her basement—she named it after her mom—and 33 years later it generates a half-billion dollars in sales.

PHOTOGRAPH BY AJ MAST

Interview by Dinah Eng

DON'T BE DRAB. *That notion impelled stay-at-home mom Barbara Bradley to begin selling colorful handbags—cutting fabric on her Ping-Pong table—in 1982. She borrowed $250 from her then husband and, with a co-founder and help from a passel of friends and family, launched Vera Bradley. Three decades, a remarriage, and a new surname (Baekgaard) later, she is 76 and her brand is sold in 2,700 specialty shops and 148 company-owned stores and garners annual sales of $509 million. Baekgaard's story:*

I never saw myself going into business. I grew up in Florida, where my father was a sales rep and later part owner of a candle company. My mother, Vera Bradley, was a model for Elizabeth Arden in her youth.

I left college two credits shy of a bachelor's degree, got married, and had four children in five years. I was a stay-at-home mom in Fort Wayne—my husband owned

a paper distributorship—when I met Patricia Miller, who lived on the same street. We became friends. I loved hanging wallpaper, so Pat and I started Up Your Wall, a hobby that made us a little money hanging wallpaper.

In 1982 we came back from visiting my parents in Florida and were at the Atlanta airport when we noticed no one was carrying anything colorful or fun. So we decided to start a company to make handbags and luggage for women. My mother had great style, and we decided to name the company Vera Bradley after her.

We didn't have any cash, so we each borrowed $250 from our husbands and bought some fabric. A seamstress made the first bag, then we put an ad in the newspaper for people who wanted to sew in their homes. We cut fabric out on a Ping-Pong table, put it with a zipper and other elements in a bag, and gave it to the women who would take them home to sew.

I still had two of my four children at home. We asked them to refrain from answering the phone between 9:00 a.m. and 5:00 p.m. so there was a more professional atmosphere.

Before long, a friend who believed in the idea gave us a check for $2,500. He said if we were successful, it was a loan. If we weren't, it was a gift. That check was huge to us. Six months later we went to a bank, seeking a $5,000 loan. The first banker who offered us money seemed reluctant, so we rejected it. You want to work with people who have faith in you. We took out the loan from another bank.

The first year, we did $10,000 in sales. Then things got chaotic. By our third year, we hit $1 million.

We moved into the Taylor Martin Paper Co. building in 1984 and rented space upstairs for the sewing so we could concentrate on marketing and sales. My husband and I divorced, and in 1987, Vera Bradley bought a lot and built its own building in town.

Early on we knew we didn't know how to price things or do cost analyses. So we got in touch with SCORE, a nonprofit that provides free business mentoring to entrepreneurs, and a volunteer was assigned to help us. I started calling on stores, showing the bags to owners. We had no trouble getting stores to buy our products because there was nothing like it out there.

The business grew with the help of friends and family. My kids helped. My mother and a sister were sales reps. We'd walk through an airport or be at a party, carrying a bag, and people would ask about it. That was our marketing.

My father always said, "In business, you sell yourself first, your company second, and the product third," and he was right. Business is all about forming relationships and having a company that reflects your values.

In 1984 we took a small booth in the Chicago Gift Show. A couple of years later there was an exhibitors' party. A friend and I saw a little girl and started talking to her. I had a pair of magnet earrings in my purse and put them on her. She showed her mother, who invited us to sit with her. It turned out the woman was the wife of Will Little, the head of the gift show, and we became good friends. Will came to see our booth and moved us to one of the premier aisles of the Chicago Gift Show, and a year later nominated me to its board of directors. I ended up marrying the president of the show, Peer Baekgaard.

Being on the board, I met everyone in the gift industry. When we got into other gift shows, I kept wondering what I should wear to them. So one weekend, I made up a skirt, camisole, and jacket out of the fabric of our bags, and people wanted to buy the clothes. That's how we got into the clothing business.

We used to do all the billing ourselves. In 1992, I sent a bill to a gentleman for $100. Those were the days of fax machines, and he sent back a note saying, "I do not owe you $100, and if I did, I doubt Vera Bradley would drop dead over it." It was a bad week because my mother had just died. So I faxed him back a copy of her obituary and said, "You do, and she did." I can't remember if he paid or not, but my mother would have approved.

We opened our first retail store in 2007. Our customers range in age from 8 to 80. We're huge with baby bags, student backpacks, and accessories. Usually, a high school student wouldn't want to carry something her grandmother was carrying, but three generations of women carry us. It's a sisterhood that I'm proud of.

Pat retired but is still on the board. I'm not a great finance person, so I stick to creativity, design, and marketing. I've got four amazing children, 12 grandchildren, and a wonderful second husband who passed away, so I've been a very fortunate person. Knowing my attitude, if I had a failure, I probably wouldn't recognize it as one.

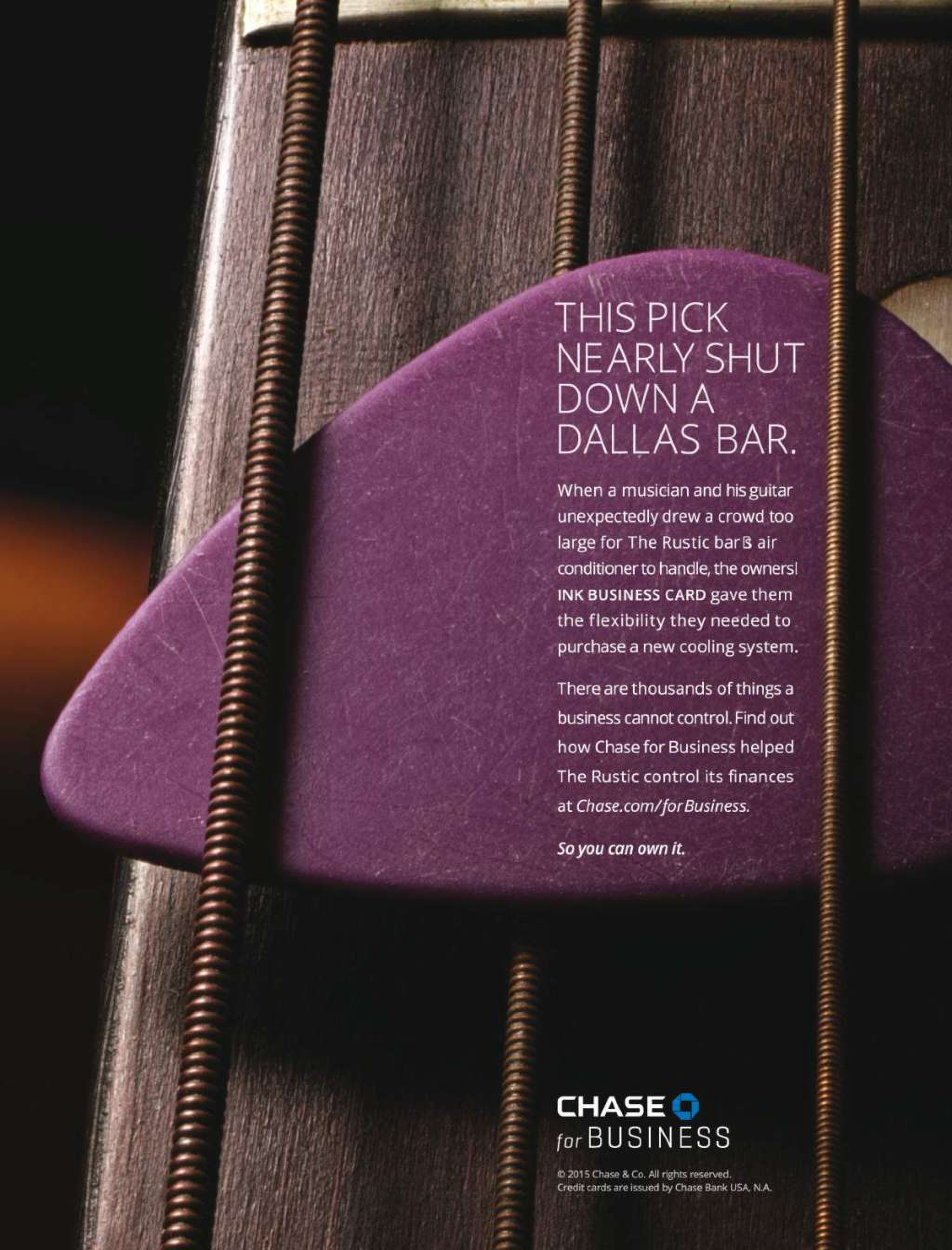
MY ADVICE

BARBARA BRADLEY BAEKGAARD
Co-founder and chief creative officer, Vera Bradley

APPRECIATE YOUR EMPLOYEES
When we first started, we'd put $50 in employees' birthday cards and say, "This has to be spent on you." Now, with 3,000 employees, we still put a $50 bill in their cards. Finance asks every year if we can just put the money in people's paychecks, and I say no. When you have found money in cash, it's just more meaningful.

WORDS MAKE A DIFFERENCE
I hate the word "boss." At Vera Bradley we say that we work *with* someone, not *for* someone.

HAVING FUN CREATES BETTER TEAMWORK
Our Happy Committee is composed of associates who plan special, fun events, like shopping trips to Chicago, kayak trips, and treats of ice cream or cookies to celebrate company accomplishments.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A SERIES FROM THE EDITORS OF FORTUNE AND Sports Illustrated

Jaworski on the links at the Blue Heron Pines golf course, one of six he owns

A KEEN EYE FOR DETAIL, ON GRIDIRONS AND GREENS

The golf-course industry is struggling, but former NFL quarterback RON JAWORSKI has a game plan that's keeping his courses profitable.

By Dan Greene

FOR THOSE FAMILIAR with Ron Jaworski's exuberant, wonkish analysis on ESPN's NFL programming, it is easy to imagine his having been an insatiable game-film connoisseur in his playing days. Yet the quarterback spent his in-season off days more concerned with par 3s than third downs, his 18-hole escapes as important to his recovery as his time in the trainer's room.

"I was away from the media, away from fans, away from talking about the game," Jaworski says of his golf outings. "It was where I would recharge my batteries."

The man known as Jaws explains this while seated in a conference room at Blue Heron Pines Golf Club in Egg Harbor City, N.J. Embroidered on his orange polo shirt are the words RON JAWORSKI GOLF. Both wardrobe and setting are reminders that Jaworski's former refuge from work now *is* his work. With six courses in Pennsylvania and New Jersey (including Blue Heron Pines), Jaworski has employed the doggedness and eye for detail that characterize his TV scouting to turn a favorite hobby into three-plus decades of business success.

"It's like he's still a quarterback reading the field," says Ken Kochenour, Jaworski's partner on five of his courses. "He sees stuff other people don't see." Sometimes that means adding an alternate tee, or trimming trees to open up the fairway, in the service of playability. That's one of

For more great business stories in our Pro-Files series, check out both Fortune.com and SI.com.

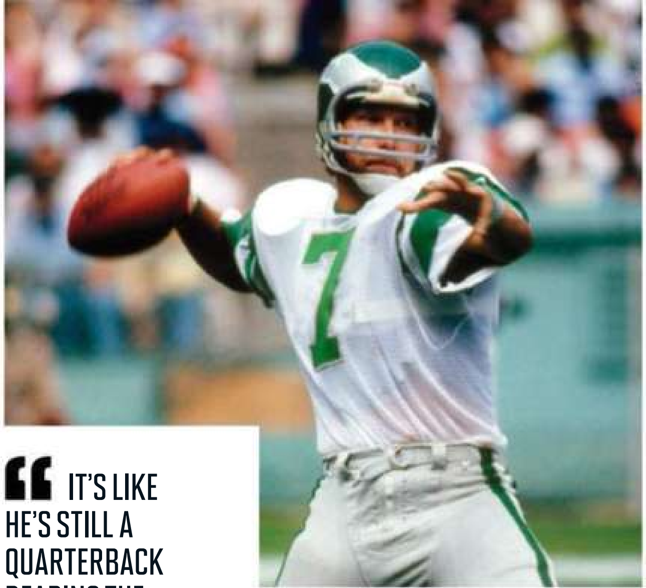
PHOTOGRAPH BY JESSICA KOURKOUNIS

Jaworski's central tenets, along with affordability (his courses charge less than $100 per round, even during weekend peaks), atmosphere (each features a sports bar), and a quick pace of play (which his rangers are not reluctant to enforce).

Other times it means spotting savings opportunities. Ron Jaworski Golf relies on economy of scale, purchasing everything from fertilizer to clubhouse food in bulk to be split among locations. This spring, after his purchase of Downingtown (Pa.) Country Club, Jaworski mobilized employees from his other courses to redo its shoddy sand traps. What would have cost upwards of $110,000 through a contractor was done for $18,000.

In golf, "your margins are tight and it can be thankless," says Charlie Clarke, superintendent at Blue Heron Pines and a longtime Jaworski employee. But Jaworski says each of his courses pulls in six-figure annual profits. "I have never lost money on a golf course," he says, knocking on the wooden table. "I say that proudly because I know a lot of people can't."

JAWORSKI'S LOVE of the links dates to his childhood in Lackawanna, N.Y. The son of a worker at a local Bethlehem Steel mill, Jaws was no country-club kid. But around age 9, he and his friends began sneaking onto the grounds of a public nine-hole course



FOCUS ON SPORT—GETTY IMAGES

"IT'S LIKE HE'S STILL A QUARTERBACK READING THE FIELD. HE SEES STUFF [ON HIS GOLF COURSES] OTHER PEOPLE DON'T SEE."
—Ken Kochenour

Jaworski led the Philadelphia Eagles to their first Super Bowl; he was still an Eagle when he bought his first golf course.

near their grade school to play scofflaw rounds, and Jaworski was smitten.

At 22, in 1973, Jaworski bought his first set of real clubs. By then he was a hotshot second-round pick of the Los Angeles Rams, and he put those Wilson Staffs to frequent use. But he was painfully aware of how short an NFL career could be: "I was scared to death of the future," he says. In 1977 he was traded to the Philadelphia Eagles, where he found stability on and off the field: Coach Dick Vermeil installed Jaworski as starting quarterback, and in '79, the off-season before he led the Eagles to their first Super Bowl, Jaworski and a teammate took over operations at a nearby golf course—an experience he enjoyed enough to begin envisioning his second career.

Five years later he learned that a bankrupt course in southern New Jersey was for sale. Jaworski scraped together the necessary dough: $1.65 million, more than four times his $400,000 salary. He rechristened the club Ron Jaworski's Eagles' Nest and set about cutting greens, raking traps, and riding an F10 mower to trim the rough. "Once you put your own money in the deal," he explains, "it's amazing how quick you learn."

As his NFL career wound down, Jaworski's stable of courses grew; by the mid-'90s he owned a half-dozen. With the Tiger Woods–driven rise in golf's popularity came a rise in golf-course valuation, and in 1998 a group of Wall Street investors offered him more than $17 million for the courses, roughly $7 million more than he'd originally paid. "I remember opening the letter, sitting with my wife," Jaworski recalls. "And I said, 'Well, I guess we're out of the golf business.'" But the absence would be brief. After a noncompete clause expired in 2000, Jaworski bought Valleybrook Country Club in Blackwood, N.J., launching what became the Ron Jaworski Golf portfolio. Retirement hadn't agreed with him. "I got a little squirrelly," Jaworski says. "I was probably playing too much too."

DURING FOOTBALL season, Jaworski enjoys no such overindulgences. A typical week includes Tuesday-through-Thursday film study; a Friday taping of *NFL Matchup* game previews; then Saturday through Monday at either a game site or ESPN's headquarters in Bristol, Conn., Between the NFL's opening night and the Super Bowl, he might play two or three rounds of golf at most.

The workload hasn't stifled his love of football or his entrepreneurialism. Jaworski is an owner of the Philadelphia Soul of the Arena Football League, and a principal investor in the nascent China American Football League, an indoor league scheduled to begin play in fall 2016. Jaworski is bullish about its prospects in a country of nearly 1.4 billion. A larger-scale league "probably won't happen in my lifetime," he says, "but it's gonna happen."

He is upbeat, too, about the future of Ron Jaworski Golf in the hands of his son, B.J., currently executive vice president. Though National Golf Foundation statistics show a recent net decline in the number of courses, Jaworski is undaunted. He sees women and children—often shunned or discouraged by snobbish country clubs—as an underserved market that will be golf's future lifeblood. He's in the process of completing his second course purchase of 2015, and he's eyeing more. "The numbers are down," he says of the industry. "That's a reality. But they're not down for me."

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Tech

PERSON OF INTEREST

Austin Geidt Uber

AGE: 30 FROM: San Francisco POLE POSITION: Uber employee No. 4, now head of global expansion and its PRO (process, resource, optimization) team, never thought she'd be leading the charge for a tech startup worth more than $50 billion. "I kind of fell into it. I had just finished school at Berkeley, and I was looking for a job." LANE CHANGE: With Uber now in 330 cities and counting, Geidt's focus has expanded from launches to overall business operations. "There are a lot of opportunities for things to go off the rails—so that you don't break into 330 different companies." TOP GEAR: Geidt is also working on Uber's 1 Million Women initiative, a plan to enroll a million female drivers by 2020. "We're trying to understand how women drivers are interacting with our system. So far the results have been really interesting. They want to work part-time, and they're juggling a lot." RACE READY: Wearing multiple hats comes naturally to Geidt. "It's about learning my limits. I haven't found them yet." —*Andrew Nusca*

TICKER TAPE
A collection of curiosities

NO. 190 *Amazon's work-life-balance ranking relative to tech peers in a University of Kansas study*

3:2 RATIO OF MEN TO WOMEN IN NEW YORK CITY'S TECH SCENE, PER THE CENTER FOR AN URBAN FUTURE

PHOTOGRAPH BY BENJAMIN RASMUSSEN

SolarCity CEO Lyndon Rive's job? Stay ahead.

IN THE SOLAR INDUSTRY, IT'S A SCRAMBLE TO THE TOP

Consolidation is forcing solar companies to compete with software and sales tactics.
By Katie Fehrenbacher

MORE SOLAR PANELS have been mounted on the roofs of American homes this year than ever before. The technology was once seen as an expensive niche option for the tree-hugging, Prius-driving set. No longer. Today solar panels are affordable, mainstream energy sources—in other words, boring. What's not: the impact of that shift on the companies that make, install, and maintain them.

Lyndon Rive, CEO of the dominant U.S. solar installer SolarCity, likens the trajectory of solar panels to the development of computers over the past 20 years. Decades ago business computers were made by a variety of small companies. Today the PC industry has consolidated around big names like HP, Dell, Lenovo, and Apple. The same trend is afoot for the companies that are installing and financing solar panels. A handful of companies—SolarCity, SunEdison, and Sunrun among them—have been scooping up smaller firms in their quest to survive in a market where scale is everything.

"Consolidation is good. It means the industry is maturing," says Rive, who is the cousin of Tesla Motors and SpaceX CEO (and SolarCity chairman) Elon Musk. In the past two years SolarCity has acquired at least five companies to help it lower costs, boost sales, and move into new areas.

In recent years there has been a steady increase in solar-industry M&A activity across the globe. According to Bloomberg New Energy Finance, there was $3.65 billion in solar M&A in 2012, $4.44 billion in 2013, and $4.71 billion last year.

Consolidation is a boon for those involved in the dealmaking, but it only underscores the importance of not ending up at the bottom of the heap. The competition is so stiff, in fact, that solar companies pushing commoditized panels find themselves battling it out in a surprising place in the organization: sales. The sale of solar panels to homeowners can be tricky and calls for a substantial educational process, leaving solar companies to slug it out over who can best identify and acquire new customers.

That fight, in turn, is driving some M&A activity. This summer SunEdison bought the second-largest solar installer, Vivint Solar, for $2.2 billion. A big reason? Vivint's door-to-door sales force. The company was founded by a former Mormon missionary who turned his experience knocking on doors into a sound business strategy.

Not every company's sales process is so human. Some solar businesses are turning to data-analytics software to refine the way they find, filter, approach, and market to customers. It's one reason SolarCity spent $120 million two years ago to buy Paramount Solar, a marketing and sales specialist. Others are using data-driven software to drive out cost and complexity in the installation process.

For Rive, every little bit helps in his company's quest to stay on top. "There's no silver bullet," he says. "I wish there was."

42% *Americans who check email in the bathroom, according to Adobe* / 139 **Number of billion-dollar startups on *Fortune*'s latest unicorn list** / 223% *Quarterly increase in global shipments of wearable tech in Q2, per IDC*

PHOTOGRAPH BY GREGG SEGAL

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DO LAWYERS LIKE SURVEYS? ✔ YES ☐ NO

Online survey companies are gaining traction by selling to businesses. One new kind of client? Law firms that want to test arguments, jurors—even judges. ***By Leena Rao***

WHEN NEVADA-BASED attorney Bernard Chao was evaluating how far to push a jury for compensatory damages to settle a lawsuit, he faced two options. On the one hand, he could pay $100,000 for a few hours' work from jury consultants. On the other, he could pay $3,000 to conduct an online survey of a random group of people to ask how much would be appropriate. Chao went with the latter, provided by a Provo, Utah, upstart called Qualtrics.

The legal industry is legendary for its massive amounts of paperwork. But law firms are beginning to look to the lowly online survey to save not just trees—after all, they didn't seem terribly worried about conservation before—but also money and time.

It's a realization at which many companies large and small have arrived. The online questionnaire is now a fixture in the corporate world, one data-driven tool among many to solicit targeted feedback from customers and employees. According to the Global Research Business Network, online surveys now account for more than a quarter of global market and social research revenues. At an estimated $10 billion, that's more than telephone and face-to-face surveys combined. What's more, the online quiz is now the primary means of research in many of the world's top research markets.

For a law firm the calculation is simple: An online survey can speed up the process for a lawyer to evaluate a jury, better predict a possible trial outcome, and dramatically cut research costs along the way.

"I am spending $3,000 to get better results than the service I am paying $100,000 for," says Chao, who also teaches law at the University of Denver. "It's a no-brainer."

It didn't use to be this way. The legal profession was once dominated by jury consultants, powerful agents who would assemble a test jury that would serve as a focus group to identify weaknesses in a legal argument and reflect how a real jury might react. Feedback from test jurors might emerge from interviews or paper surveys, Chao

1.5 million Shortfall of cybersecurity personnel by 2019, according to Cisco / **2.5 million** *Number of honeybees Australian scientists hope to equip with RFID tags to monitor population decline*

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says. The test jury would typically span no more than 30 people. Meanwhile, an online survey could reach 400 people—a sample size that may better represent the greater population.

Companies like Qualtrics, SurveyMonkey, Survey-Gizmo, and QuestionPro know that businesses are willing to pay for better insights. So do their investors. Qualtrics and Survey-Monkey, for example, have raised hundreds of millions of dollars in venture capital (at billion-dollar valuations) to blossom into full-service business-intelligence firms rather than remain solely web-survey providers. With sophisticated algorithms in development and talented data scientists on hand, they're positioning themselves no differently than other Silicon Valley software startups that seek corporate customers.

"Instead of waiting six months for results, you can have answers within hours," says Jon Cohen, former head of polling at the *Washington Post* who now leads research at SurveyMonkey. It's also the reason his colleague Eleanor Lacey, SurveyMonkey's general counsel, uses the company's tools to approve board motions, shortening a process that once required calling each director for a verbal approval.

Yet the legal applications can be fascinating. Qualtrics says one of its customers, a criminal-law firm in Atlanta, used its surveys to test for racism in potential jury members. (Their use is subject to judicial discretion.) The firm's attorneys asked each possible juror to take a survey with a randomized image of a person of African, Asian, or European descent. Then the lawyers asked the candidates questions about the images. Their goal, says Qualtrics: Weed out implicit bias in a potential juror.

A different law firm used Qualtrics's surveys to prepare potential jury members for legal jargon—"manslaughter" or "second degree"—likely to be used in a case. In this example, the results helped attorneys remove or replace language in their arguments.

"Decisions that used to be based on intuition can now be based on data," Cohen says.

Not every law firm is on-board with the technology. Some share concerns that online surveys put sensitive information at risk. (Qualtrics and SurveyMonkey say they do not sell or share specific user data except in cooperation with law enforcement.) The sentiment matches that of the general population: According to a recent Pew Research Center report, confidence in the security of online communications channels is waning, particularly for online tools such as surveys.

The benefits are worth the risk, Chao says: "It's like playing *Moneyball* with the law."

Expect surveys to appear in more courtrooms around the country—and not just in the jury box either. The State Bar of California, for example, tapped Survey-Monkey to gather data on nominees for potential judicial appointments. And with so many smartphones in the wild—60% of responses to Qualtrics surveys came from them, the company says—it's not hard to imagine a world where court cases could be decided from the comfort of a juror's home.

Wishful thinking, perhaps. But the impact on the legal profession is not to be underestimated. Says Ryan Smith, CEO and co-founder of Qualtrics: "It's one more example of how software is changing every industry."

DEF CON DISPATCH

DON'T BE A 'SHEEP' ON YOUR NEXT WORK TRIP

Afraid of being hacked? Don't go to Def Con. The code-cracking conference, held annually in Las Vegas, is teeming with hackers looking to make examples of fellow attendees. The No. 1 rule for the uninitiated? Turn off the wireless connections on your mobile devices. If you don't, and your gadgets aren't hardened against hacking, you'll end up on the infamous "Wall of Sheep"—a digital board that bears the usernames and passwords of attendees who didn't think it was that easy. (It is.) As I walked the show floor, I thought about all the corporate conferences I had been to where the risks weren't so apparent—where attendees were sheared of their data without knowing it. So go on, enjoy your next work trip. But remember: The biggest threat isn't the network you don't trust. It's the one you do.
—*Robert Hackett*

We're going to guess that this attendee's password is P0LLYw@nnaH@CK3R

COURTESY OF DEF CON

35% New-car owners who have never used the car's automatic parking system / **$22 BILLION** *Estimated cost of ad-blocking software to publishers in 2015* / **0.3%** **Share of global smartphone sales attributed to BlackBerry in Q2**


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Invest

PLAYING A UTILITIES REBOUND

ROGER BALL—DUKE ENERGY

Rows of photovoltaic panels at a North Carolina facility affiliated with Duke Energy

UTILITY INVESTORS SEEK A MOMENT IN THE SUN

Clean-air rules and rate-hike fears fueled a selloff in utilities this year. But as the broader market cools, some of these safe-haven stocks look attractive again. *By Chris Taylor*

IN BASEBALL, a utility player is a particular type of athlete: never the team superstar, but someone reliable and durable who can step up and perform when teammates are struggling. The same might be said for utilities stocks. They rarely post eye-popping performance numbers, but they often stay steady when the rest of the market suffers.

And that, some investors say, makes utilities particularly attractive right now, when the toxic brew of

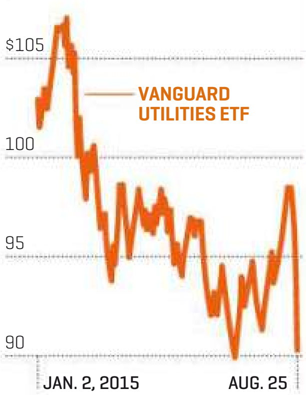
China's stock meltdown, oil's cliff dive, and other signs of global economic softening have sent some flashier sectors of the stock market tumbling toward a correction. "This isn't an environment where you want high-risk stocks," says Andrew Weisel, vice president of equity research at New York City–based money manager Macquarie Group. "Every portfolio should have a place for utilities, for their safety."

Even before the global stock swoon of August, some value-minded investors were looking more closely at utility stocks—in part because those stocks have been taking it on the chin this year. The Vanguard Utilities ETF, for instance, is down roughly 11% year to date, compared with a 4% drop for the S&P 500. Utilities' valuations relative to the broader market dropped even further, notes Jonathan Arnold, managing director and head of power and utilities research for Deutsche Bank. From trading at a 10% premium to the S&P 500 average in January, utilities had sunk to a 10% discount by the end of August; collectively they now trade at a price/earnings ratio of around 16.

The biggest and most obvious reason for the sector's sluggishness, however, has been the expectation that the Federal Reserve would hike interest rates this autumn. Because they pay higher-than-average dividends, utility stocks are often seen as proxies for bonds,

OVERSOLD?

Utility stocks have fallen more sharply than the broader market in 2015.



and when the Fed boosts rates and bonds offer healthier yields, the relative appeal of utilities payouts suffers.

After this year's selloff, those fears are baked into utilities' share prices. But with China-driven economic woes making the U.S. outlook less upbeat, the timing of a rate hike may yet be delayed, and a larger, more abrupt rate increase is almost certainly not in the offing. Many investors now expect that the Fed will take a "lower for longer" approach to rates—a climate in which utilities dividends will look good again.

With all that in mind, money managers sense an opportunity. "Our view is that utilities have been oversold," says Weisel. "These stocks should trade at a premium." Among their alluring traits: guaranteed markets with a wide "moat" that wards off competition, reliable earnings, and fat dividends that make utilities a primary "risk-off" trade for many investors. Demographics also seem to be on utilities' side: Baby boomers heading into retirement tend to favor familiar brand-name stocks that are reliable income generators.

Not all utilities are in equally good shape, of course. Weisel's top pick is **Alliant Energy,** a utility based in Madison, with customers in Wisconsin, Iowa, and elsewhere in the Midwest. Alliant has pulled off the nifty trick of "keeping everybody happy" in the markets where it operates, Weisel says, by avoiding large rate increases while driving faster-than-average growth. He also favors Michigan utility **DTE Energy:** The company's customer base is steadily growing, he says, and its web of natural-gas pipelines helps it profit from the growing use of gas as a power-generation source, without taking on the price risk of owning the gas.

Utilities businesses are heavily regulated, and that can also cast a pall over their stocks. For companies that rely heavily on coal, the Environmental Protection Agency's clean-power initiatives, rolled out at the beginning of August, could eventually require significant new cost outlays in the form of plant and equipment upgrades. But some investors argue that a transition to cleaner energy sources, whether forced or not, could also power significant future growth for many power generators.

NextEra Energy, whose subsidiaries include Florida's largest utility, has placed big bets on clean energy in recent years, such as its merger with **Hawaiian Electric,** a major player in renewable power. (Investors have been pleased: NextEra's 83% return over the past five years is almost double the sector average.) Deutsche Bank's Arnold thinks that with a combination of steady earnings growth and a 3% to 4% dividend yield, NextEra will consistently deliver a 10% annual total return in coming years. "Absent a lot of excitement elsewhere, that's a very decent number," he says. Arnold also likes Michigan-based **CMS Energy,** a name that "ticks the growth box for us," he says.

Another stock to watch, according to Morningstar equity analyst Andy Bischof: **Duke Energy,** which is now the largest electric-power holding company in the U.S. and has operations in Canada and Latin America as well. Bischof says Duke's mix of a reasonable current stock valuation (a price-to-expected-earnings ratio of 15.5), a strong management team, and a juicy-but-sustainable dividend yield (currently 4.4%)—coupled with a recent stock-buyback program—should deliver attractive returns in the near term.

All of the managerial stock picks cited here have fallen more steeply than the S&P 500 this year. Since utilities as a group have been the market's whipping boy, this could be a good entry point for mutual fund investors who want to spread their bets across the sector. Morningstar has identified three utility funds that it deems primed for outperformance against their peers over the next five years: **Franklin Utilities, MFS Utilities,** and **Prudential Jennison Utility.**

Investing in one of these funds could be the equivalent of having a whole squad of helpful utility players on your bench. "This discount isn't a bad place to be buying," says Arnold. "The stocks could go up a lot."

GRAPHIC SOURCE: S&P CAPITAL IQ

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Hedge Funds in Disguise

ETFs HAVE CAUGHT UP WITH HEDGE FUNDS IN POPULARITY. BUT SOME HOT FUNDS ARE AS COMPLEX AND RISKY AS THEIR RIVALS.

By Stephen Gandel

THE PROSHARES Large Cap Core Plus Fund uses borrowed money—leverage—to load up on stocks recommended by its algorithm. Nearly 20% of its portfolio is devoted to shorting, using more leverage to bet that stocks will fall. It also invests in swaps, a type of derivative that its marketing materials acknowledge can be volatile.

These are sophisticated strategies, straight from a hedge fund playbook. But Core Plus is an exchange-traded fund, managing $450 million and growing fast. And its popularity points to a broader trend: the rise of the anything-but-simple ETF.

This summer saw a milestone. As of July 1, there was more money invested in ETFs than in hedge funds, though by a tiny margin (see chart). Some commentators hailed this as a sign that investors had embraced humbler, sound strategies. ETFs, after all, originated as a cheap way to buy diversified baskets of stocks that track common benchmarks.

But ETFs also attract traders who want to chase the hot money—and some of today's fastest-growing funds cater to these clients' esoteric needs. ETFs now track assets that most investors once had no access to, like commercial property and currency-hedged portfolios. Many use leverage and derivatives to amplify returns: Direxion Daily CSI 300 China A Share Bull 2x Shares, for example, offers two times the return of China's CSI 300 index.

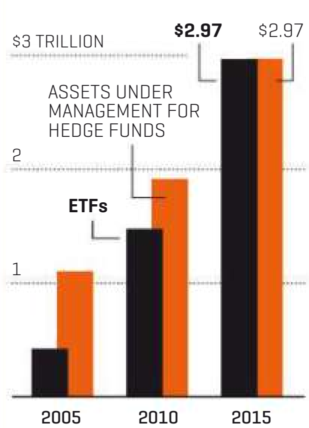
Ben Johnson, director of global ETF research at Morningstar, notes that 80% of ETF inflows still go into basic indexlike funds. But products that blur the line between ETFs and hedge funds also attract huge sums. There is now $400 billion in ETFs branded as "smart beta," marketing-speak for funds that try to beat, rather than match, their benchmarks.

Mazin Jadallah is one of the new ETF wizards. His company, AlphaClone, uses an algorithm to mimic the picks of top hedge funds; its ETF has beaten the market since it launched in 2012. "Institutional investors can now get much of what they used to get from hedge funds from ETFs but at a much lower cost," says Jadallah. With annual expenses of 0.95%, AlphaClone's ETF is cheaper than most hedge funds—though it's roughly 10 times as expensive as basic ETFs from BlackRock and Vanguard.

Prolonged market turmoil could expose how risky some ETFs are. The August tumble was exaggerated in a number of ETFs: Direxion's CSI 300 ETF, for example, was down more than 70% at one point. And complex funds could create problems even for those who don't own them. Regulators have long worried that big bets by hedge funds could make markets riskier. ETFs now raise similar concerns. Some critics have warned that ETFs that focus on hard-to-trade assets like high-yield debt and bank loans could create a systemic crisis if investors try to sell en masse.

The good news: Since the first ETFs started trading, mutual fund investing has become far cheaper. Including ETFs, the average fund now charges 0.6% a year, down from around 1% in 1993. But the idea that ETFs would make markets simpler or less risky overall remains wishful thinking.

DRAWING EVEN



GRAPHIC SOURCES: ETFGI; HFR. NOTE: INCLUDES NON-MUTUAL-FUND ETFS

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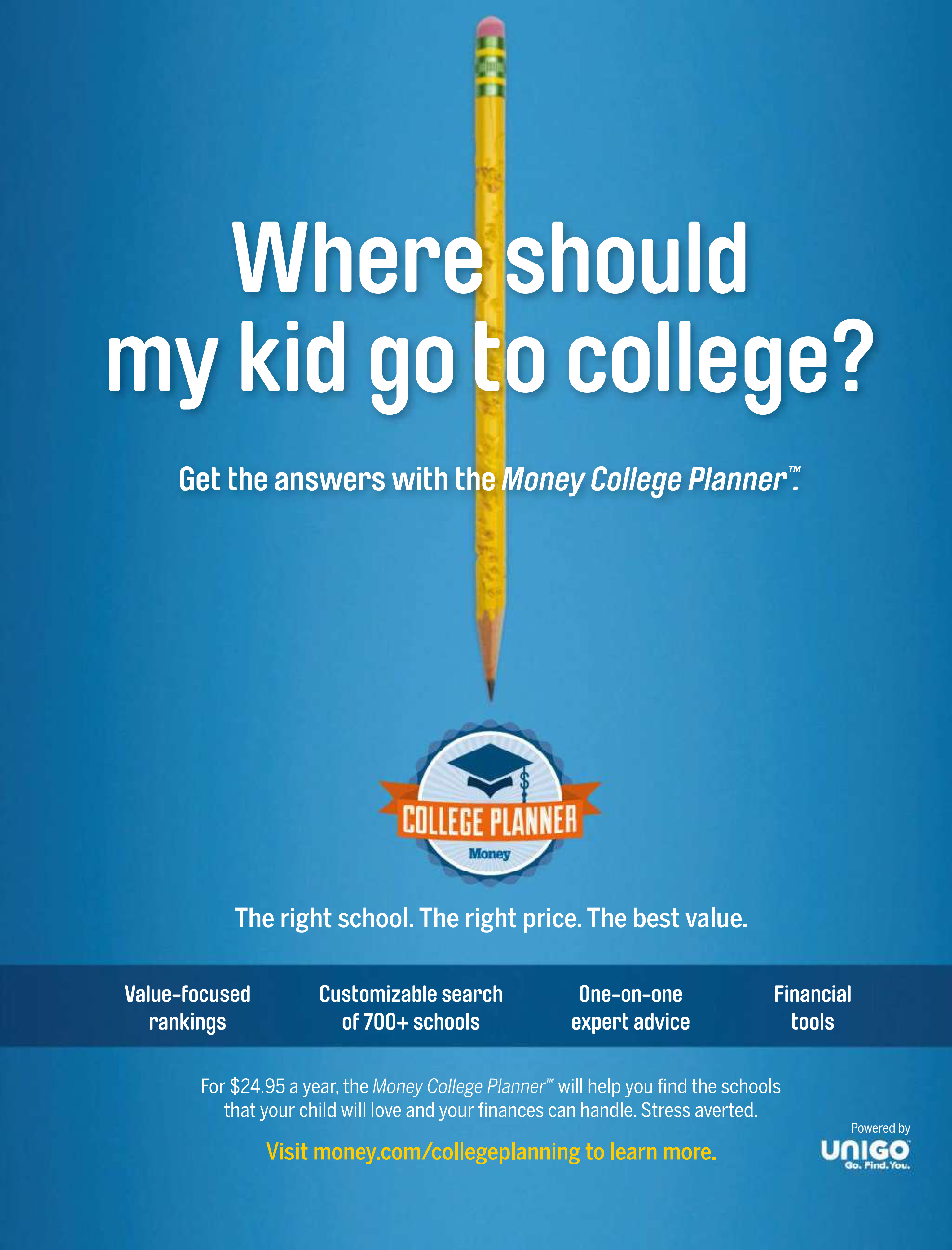
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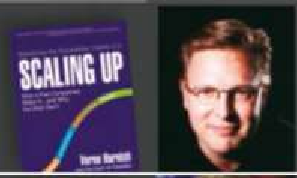

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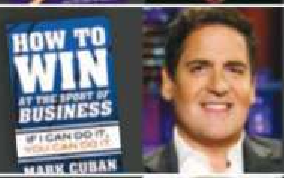

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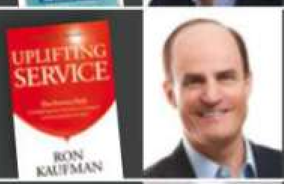

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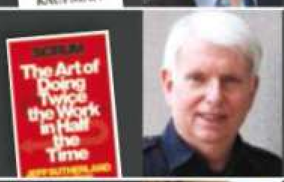

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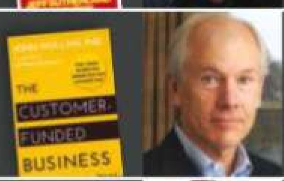

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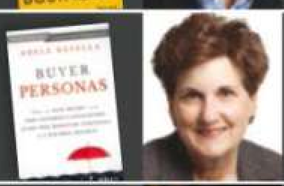

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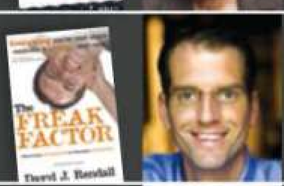

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AARÓN MARTÍNEZ

Seeking a Cure for Drug-Price Insanity

SPECIALTY CANCER DRUGS HAVE SAVED AND EXTENDED THE LIVES OF THOUSANDS OF PATIENTS, BUT THEIR PRICES HAVE MORE THAN QUADRUPLED IN TWO DECADES, BECOMING A THREAT TO THE HEALTH CARE SYSTEM. TO BENEFIT FROM THESE MIRACLE PHARMACEUTICALS, WE NEED A RATIONAL WAY TO KEEP THEIR PRICES IN CHECK.

By Peter B. Bach, MD

BACK IN THE 1970s, my older brother and I would sometimes detour on our way home from school to our favorite used-comic-book store. An overflowing corner bin offered beat-up copies of *The Flash*, *Batman*, and *The Fantastic Four*, priced at a dime for one comic, a quarter for two.

My brother would joke that three must cost 50¢. He understood that the pricing was upside down, with the second comic costing more than the first. I guess that can happen in a store focused on people who can fly and see through buildings, but it shouldn't happen in a world where pricing is rational.

Fast-forward to my life today: Less time for reading comic books, more time spent reading tables of specialty-drug prices, where I see a similar pattern. Prices are rising when basic rules of markets say they shouldn't. Each step of progress costs more than the last; prices rise even when competitors appear, when the market size expands, when drugs work less well than hoped.

Take Eli Lilly's new cancer drug, Cyramza. For about $50,000 per treatment course, Cyramza with chemotherapy increases the life span of patients with colon cancer by about 1.6 months, according to the study that led the Food and Drug Administration to approve this use. But Genentech's 10-year-old drug Avastin adds 1.4 months of life, while costing just $25,000, according to a similar study. In effect, the additional 0.2 months—roughly six extra days—from Cyramza costs as much as the 1.4 months from the older drug.

Across the universe of these drugs, prices are rising faster than benefits. In 1995 the average cost of using a cancer drug to deliver a "life year" of benefit to a patient was around $50,000 in current dollars; today that precious year costs about $225,000.

It isn't just new drugs that are driving prices higher. Gleevec, Novartis's important leukemia drug, cost $3,000 a month in 2001, adjusted for inflation; it now costs more than $9,000 a month. If the drug served only a small niche, this might make sense. But Gleevec's market has broadened and deepened over time, as the FDA has approved new uses. The increase can't be explained by a lack of competition either. Sprycel arrived in 2006, and Tasigna in 2007, yet Gleevec's price has kept going up, as have those of its competitors. Name another sector where that happens.

Drugmakers argue that high prices reflect the benefits of their products to patients and help them recoup costs for the many paths to discovery that turn out to be culs-de-sac. Often they point a finger at the burden of regulations.

That last argument rings particularly hollow because the FDA recently enacted shortcuts that have eased approval for some drugs. Amgen's leukemia drug Blincyto was approved last year, and Medicare agreed this summer to give hospitals money to buy it, without the company having to show in an expensive randomized trial that the drug saved lives or even that it worked better than any current drugs. In a normal market the savings from these shortcuts would be passed on to patients. Yet Amgen charges around $60,000 a month for Blincyto—more than twice the annual income of the typical person in Medicare. (Amgen told the *Wall Street Journal* that the price in part reflected "the complexity of developing, manufacturing, and reliably supplying" the drug.)

To criticize drug pricing is to raise a more difficult question: Is any price too high to save or extend a life? But in the U.S., prices are rising not because they must, but because they can. No entity holds them down. Instead, state and federal regulations require nearly every insurer to provide access to all cancer drugs, which means the companies can charge what they like. Doctors, meanwhile, are trained not to consider the cost of a treatment when making medication choices.

We need a different system, in which the innovation

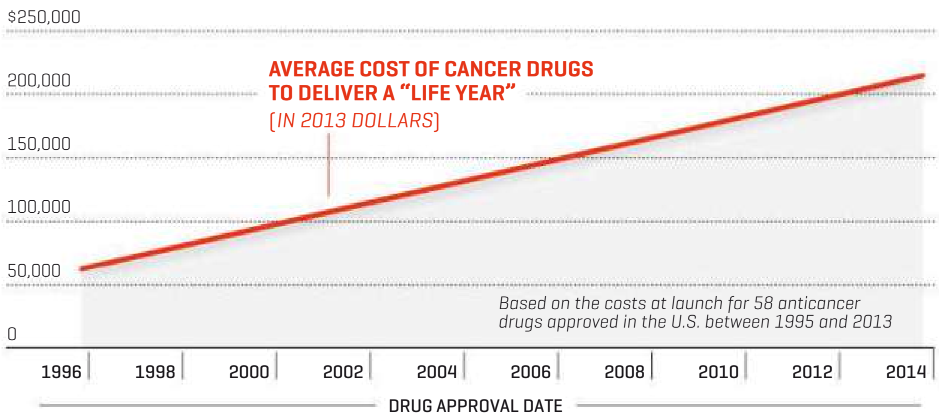

CHART SOURCE: DAVID H. HOWARD, PETER B. BACH, ERNST R. BERNDT, AND RENA M. CONTI, "PRICING IN THE MARKET FOR ANTICANCER DRUGS," *JOURNAL OF ECONOMIC PERSPECTIVES*, 2015

"PRICES ARE RISING WHEN BASIC RULES OF MARKETS SAY THEY SHOULDN'T. EACH STEP OF PROGRESS COSTS MORE THAN THE LAST; PRICES RISE EVEN WHEN COMPETITORS APPEAR."

we dearly need is also innovation we can comfortably afford. Rather than paying the price the company wants to charge, we should pay based on the value of what the company has produced. We'd have to define "value"—a term that means different things to different people—but the definition should encompass the value not only to patients but to science and society as well.

We don't have this kind of model in the U.S., but we could. My Memorial Sloan Kettering colleagues and I have developed a proof-of-principle platform called DrugAbacus (drugabacus.org). The model incorporates multiple components of value that can be changed depending on what approach makes the most sense. For instance, the user can decide to give more or less value to the amount of benefit patients get from a treatment (as measured in additional life years) or to how much it cost to develop.

This is not uncharted territory. In Europe health care systems anchor drugs' pricing to their value; the U.K.'s National Health Service will not include drugs in its formulary if their cost exceeds their value to patients.

What would paying for value look like? If its price were based primarily on life years added, Cyramza would cost a little more than Avastin for those extra 0.2 months, but not twice as much. Blincyto and other drugs would cost a fraction of their current price. My hospital rejected Sanofi's drug Zaltrap after we ran a DrugAbacus-like calculation and deemed it too expensive. The manufacturer then halved the drug's price for its U.S. customers.

If we link drugs' prices to their value, we can continue the vital quest to lengthen and improve people's lives. We can draw a bull's-eye around the places where innovation is needed most. And we can mandate that treatments be affordable for patients. This last, vital part of the formula would require insurers to jettison the multi-thousand-dollar co-payments they often tack on to expensive specialty drugs.

I usually left my comic-book store with just one magazine; my brother sometimes grabbed two. We never found out how much a third one would have cost. But in health care, we do know that spending on cancer and other specialty drugs is likely to more than double, to $400 billion annually, by 2020. Patients are being driven into bankruptcy, while Medicaid and the Veterans Administration have been driven into the red. If we want innovation, and we certainly do, the solution to affording it lies in paying only for its value.

Peter B. Bach, MD, is director of the Center for Health Policy and Outcomes at Memorial Sloan Kettering Cancer Center.

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INFLIGHT SERVICE, POWERED UP

CHECK IN

The private jet upgrade, supersonic revived, new lounges and more

FROM THE FLIGHT DECK

Hard landing? A look behind the cockpit door when the wheels go down

AIRPLANE MODE

New ways flight crews are tapping digital devices to upgrade passenger experience

FROM THE EDITOR

The unsung heroes of air travel today also happen to be the most visible: flight attendants. They are the face of the airline and have the greatest impact on your flying experience. I've learned, first hand, that this job is much harder than it looks. Several years ago, I visited the American Airlines flight attendant training facility in Dallas and participated in several emergency procedures. My heart pounded, and I swallowed back fear during the emergency drills, which included feeling my way out of a demonstration aircraft in (simulated) smoke-filled darkness; jumping, feet first, onto a Boeing 767 evacuation slide; and inflating and climbing into a raft floating in a pool of cold water.

I can attest to the fact that safety comes first with flight attendants. But thankfully emergency skills are rarely used. For passengers, what's arguably more top of mind is personalized attention and timely on-board service. Our feature story on the new technology flight attendants have to help them deliver that service is a behind-the-scenes eye-opener.

Here's to safety first—and to unwavering service with a smile.

Janet Libert
Editor

CHECKIN

BY KAREN GOODWIN

The Concorde MSN1 at the Aeroscopia museum in Toulouse, France

LET'S LUNCH IN LONDON

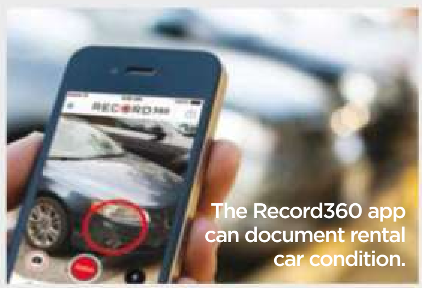
AIRBUS PLANE WOULD LEAVE CONCORDE IN THE DUST

The supersonic Concorde, which once shuttled passengers between New York and London and Paris in roughly three hours, is but a fond memory for veteran travelers. But Airbus has filed a patent for Son of Concorde, an ultrarapid air vehicle that could potentially fly between New York and London in an hour. The plane, propelled vertically by rocket engines, would travel more than four times the speed of sound: at 3,400 mph. Have patience if you want to book this flight; it could take 30 to 40 years to enter service, if ever.

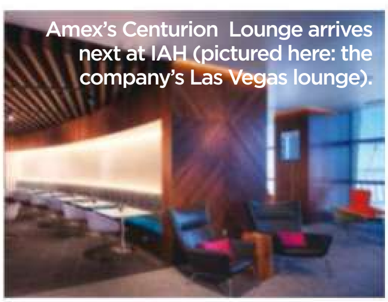
DEFENDING DINGS

APP TRACKS RENTAL CAR DAMAGE

Worried about disputing damage on a car rental? The Record360 app allows you to take video and snapshots of the car as you move around it, tapping the screen to note where you see existing damage. The video is geotagged and timestamped before it uploads to the company's independent repository. Bonus: It also can be used to document the condition of vacation home rentals.



The Record360 app can document rental car condition.



Amex's Centurion Lounge arrives next at IAH (pictured here: the company's Las Vegas lounge).

Luxury Lounge at Houston

IAH GETS AN AMERICAN EXPRESS CENTURION FACILITY

American Express is opening its seventh Centurion Lounge at Houston's George Bush Intercontinental Airport in the first half of next year. The 8,500-square-foot lounge will open in the new international Terminal D. Amex platinum card holders will have complimentary access to the lounge's workspaces, showers, free Wi-Fi and a full bar and food buffet. Other Centurion airport lounge locations: Dallas/Fort Worth, Las Vegas, Miami, New York's LaGuardia, San Francisco and Seattle-Tacoma. Those with non-Centurion Amex cards can purchase access for $50 per day.

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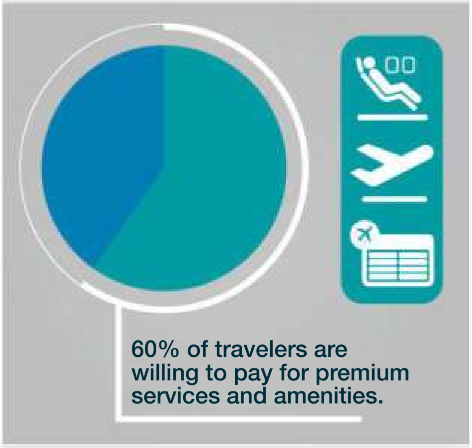
MONEY TO BURN

MANY TRAVELERS ARE WILLING TO PAY EVEN MORE FOR EXTRA AMENITIES



You may loathe the ancillary service fees that airlines charge, but the majority of us—particularly Millennials—would be willing to pay for more premium services, according to a FlightView survey. Nearly 60 percent of travelers surveyed would be willing to pay for the following premium services: an RFID tag on their bags to track the luggage location in real-time, 53 percent; the ability to check luggage at the gate temporarily in order to shop and dine more freely, 40 percent; priority baggage claim, 37 percent; curbside rental car pickup, 35 percent; flight status alerts automatically sent to family, work, hotel and ground transportation, 26 percent; and the ability to pre-order food and drinks at airport restaurants via mobile devices, 18 percent. Millennials are even more willing to shell out for a better travel experience, with nearly 75 percent interested in paying for those services.

THE ULTIMATE UPGRADE

DELTA OFFERS PRIVATE JET FLIGHTS TO ELITES

It's one thing to score an upgrade to business or first class. It's another to upgrade from a commercial flight to a private jet. That's what Delta Air Lines is doing for "Diamond Medallion" elite members of its SkyMiles frequent-flyer program. Upgrades to private jets will cost $300 to $800, depending on the destination. Delta plans to roll out the program slowly, starting at its East Coast hubs via its Private Jets division. "Diamond Medallion" members typically spend $15,000 at Delta and travel at least 125,000 miles or 140 flight segments per year, though the airline may expand it to other routes and SkyMiles tiers.

Quick Pickup

NEW SERVICE ENABLES ADVANCE FOOD ORDERS AT AIRPORTS

If you're flying through San Francisco and Boston, consider ordering and paying for your airport food in advance via the AirGrub app, which allows you to pick up your food—and alcoholic beverages—at a designated time in your departure terminal. Participating restaurants are part of the Tastes on the Fly dining group. AirGrub is looking to expand the concept to additional airports later this year, possibly to other Tastes on the Fly concessions in Denver and New York's JFK.

IN BRIEF

Hilton plans to launch a new mid-scale, "value-oriented" brand early next year, with rates lower than its current mid-scale Hampton Inn brand … Chicago's Midway International Airport will undergo a $248 million renovation to expand concessions and to add 1,400 parking spots and a much larger security checkpoint area … United's Terminal C at Newark will get a $120 million makeover that will include 55 dining venues, complete with an iPad at every seat (about 6,000 tablets). The renovation will be completed sometime next year … Virgin Atlantic Airways and Delta Air Lines have opened a new 300-person lounge at the O2, an entertainment venue in London.

CLOCKWISE FROM TOP LEFT: © DNA SEATTLE; © MATT KAHN & DELTA PRIVATE JETS; © AIRGRUB

FROM THE FLIGHT DECK

CHRIS COOKE has been a pilot with a major domestic carrier for more than 20 years and currently flies long-haul routes on the 777. He began his career with the U.S. Marine Corps, received Navy flight training and was a Top Gun graduate.

Stick the Landing

WHAT MAKES THE DIFFERENCE BETWEEN A SMOOTH GLIDE TO THE RUNWAY AND A BONE-JARRING THUD?

It was a beautiful, clear night as our Boeing 757 descended into Chicago. The captain I was flying with had been with the airline more than 11 years. He had plenty of flying experience, having been on the 747-400 as a first officer, but he was new to the 757 as captain.

As we descended through 75 feet on our approach to the runway, he unexpectedly pulled the throttles to idle and raised the nose to what he thought was a good landing position and sight picture. It wasn't the proper technique to land a 757, and it botched the landing. What he did put us into a stalled condition 40 feet above the runway, essentially dropping us out of the sky onto the tarmac. Luckily, no one was hurt, and we didn't damage the aircraft. The landing was the worst I'd experienced in almost 35 years of military and commercial flying.

I spent the next hour instructing the captain on how to apply basic flying techniques to the 757. Unfortunately, he made the same errors on his next three landings. Upon pulling in to the gate after our final leg together, I gave him the option to volunteer for more training or be reported to the chief pilot. Thankfully, he opted for the former and was out with an instructor for another round of training later that week.

Landing a large jet aircraft smoothly and safely is a challenge, especially when there are numerous variables. First and foremost is the experience level of the pilot who's landing the plane. Pilots with the major U.S. legacy airlines are only authorized to fly one aircraft type at a time. As a pilot gains seniority with a company, he or she will progress to bigger aircraft for pay grade boosts or to smaller aircraft if moving from first officer to captain. Experience levels vary with flight time in a particular aircraft.

> *Weather, crosswinds, visibility and turbulence affect a pilot's ability to land a plane expertly.*

Weather, crosswinds, visibility and turbulence affect a pilot's ability to land a plane expertly, as well. In addition to these variables, pilots may have different landing preferences: There are those who fly their aircraft all the way to the ground, while others just don't have the air sense.

Even the best, most experienced pilots have the occasional rough landing. I've had a couple of them, myself. Usually, those happen when a pilot is new to a particular aircraft and isn't completely comfortable with how it handles close to the ground. Another cause might be excessive crosswinds combined with landing on a short runway. In that case, the pilot must force the plane onto the runway to stay in the smaller touchdown zone.

Those situations are not dangerous because airliners are built to handle stresses well beyond the typical hard landing. But beyond consideration for the equipment, a pilot's job is to get passengers to their destinations as safely and as comfortably as possible. Providing smooth landings is one way pilots show their skill and finesse, and it's something all pilots strive for. ET

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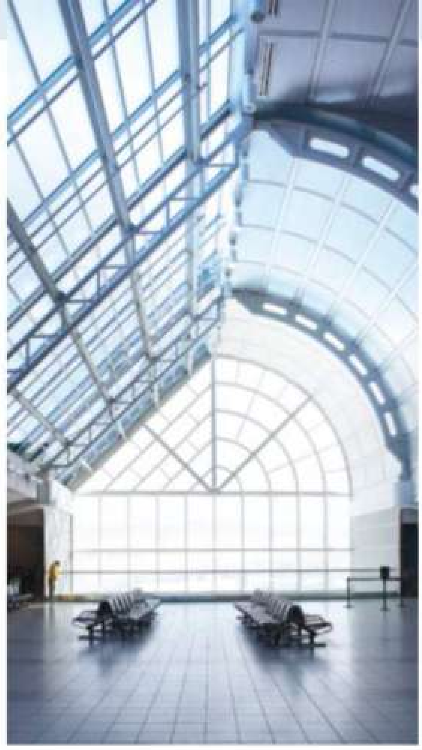
Optimize Your Trip

7 HACKS *TO MASTER BUSINESS TRAVEL*



YOUR SMARTPHONE, IPAD AND LAPTOP may be the engines that power your profession—however we're also reaffirming our work relationships in person more than ever. In 2015, Americans are set to take more than 492 million business-related trips—and spend nearly $300 billion on business travel—according to the Global Business Travel Association. With so much time spent on the road and in the air, efficiencies en route are all the more essential. These seven hacks, forged by veteran road warriors, will ensure you get as much value from the journey as you do from your meetings upon arrival.

1 FIND A BETTER HUB

Consider this: the closest airport might not make the most sense for making connections. Insiders know that Toronto Pearson is one of the smartest airports for business travelers. Here, you can fly nonstop on Air Canada's network through Canada and to South America, Europe, the Middle East, and Asia. This efficient Toronto hub actually reduces the flight time to many destinations (it bears mentioning that Air Canada offers the shortest elapsed time from the U.S. northeast corridor to downtown Tokyo with its flight to Haneda). Plus you don't have to recheck your bags on the return connection through Toronto as you do with other airports. Another big perk: the airport's free Wi-Fi.

2 JUMP THE LINE

Who wants to waste time waiting in line? TSA Pre✓($85) can be used at more than 156 U.S. airports, speeding you through security checkpoints with shorter lines and fewer hassles (no removing your shoes). Global Entry ($100) helps you breeze through customs in a number of U.S. and international airports, including Toronto Pearson International. Passengers on Air Canada returning to the U.S. from international destinations via Toronto through the Pearson hub don't need to pick up bags. Connecting passengers have priority access to U.S. customs in Toronto, allowing for convenient connecting times. Once arriving home in the U.S., they just pick up bags and walk out of the airport.

Air Canada International Business Class

3 LEVERAGE YOUR LOYALTY

To rack up miles, look for programs with the best rewards, such as Air Canada Altitude. Unlike many frequent-flyer programs, Altitude members get up to three free checked bags, upgrades on international flights after 25,000 miles, unrestricted complimentary Maple Leaf Lounge access when you hit 50,000 miles, and concierge service after 100,000 miles. Plus, Air Canada's partnership with Star Alliance provides benefits on 27 global airlines.

4 DOUBLE DOWN ON ELECTRONICS

There's nothing worse than arriving at your destination only to realize you left your computer charger at home. Rather than constantly repacking cords and adapters, set aside a second travel set (pro tip: keep it in your suitcase). You'll always have that critical cord for every big presentation. Airlines including Air Canada even offer power ports from the convenience of your plane seat.

5 ALWAYS STAY CONNECTED

Why risk missing vital emails because your 4G connection isn't working or you can't find a Wi-Fi hotspot? Guarantee that you're always plugged in by buying a mobile jetpack. Another hack: transform your smartphone into a mobile hotspot. Just be careful, as this trick drains power and data.

6 SLEEP LIKE A BABY

Want to arrive at your destination as rested as if you stayed in a hotel? Air Canada offers comfortable, fully lie-flat seats in International Business Class. Additionally, you can enjoy landing without feeling lethargic, thanks to anti-jet lag lighting in the state-of-the-art 787 Dreamliner. Bonus: it'll offer your company a more productive executive upon arrival.

7 STAY HEALTHY WHILE TRAVELING

Thanks to a growing number of smart hotel brands, wellness and business travel aren't mutually exclusive. Hotels are installing workout gear in rooms, providing healthier menus, stocking minibars with organic food, and even creating beds that encourage better sleep.

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Devices Abound In Flight

Cabin crews are now more connected and more effective, thanks to new devices.

By Harriet Baskas

Don't be alarmed if the cabin attendants on your next flight seem to be spending a lot of time looking at their personal electronic devices.

They're not checking Facebook, watching the latest viral animal video on YouTube or tweeting about the antics of the misbehaved passenger in row 12.

More likely, they're using their airline-issued devices to determine which passengers will have tight connections, who's having a birthday, and who's entitled to a complimentary drink.

In the same way mobile technology has literally lightened the loads of pilots by replacing stacks of paper charts and manuals with programmed iPads, apps on mobile devices that can facilitate sales and access passenger information are changing the way flight attendants work in and out of the cabin—and they're helping airlines improve their bottom lines.

"Equipping crew members with digital devices gives them access to information that allows them to address passengers in a relevant way," says Raymond Kollau, founder of airlinetrends.com. "It's also a way to increase inflight revenues, as the transaction process is quicker."

In late 2012, American Airlines became the first airline to equip all its flight attendants—at that time more than 20,000—with mobile tablets for use on board its planes.

Now American has about 26,000 flight attendants (as a result of its merger with US Airways), and all are equipped with Samsung Galaxy Note 3 phablets. That enables them to receive corporate email, check in for their shifts, and get real-time access to passenger seat assignments, loyalty program status, special service needs, premium class food and drink choices, connecting gate details and other information, says Charles Sucur, American's senior manager of onboard products and flight service technology.

"We also provide third-party apps that help them serve customers better, such as Google language translator, FlightAware and weather," says Sucur.

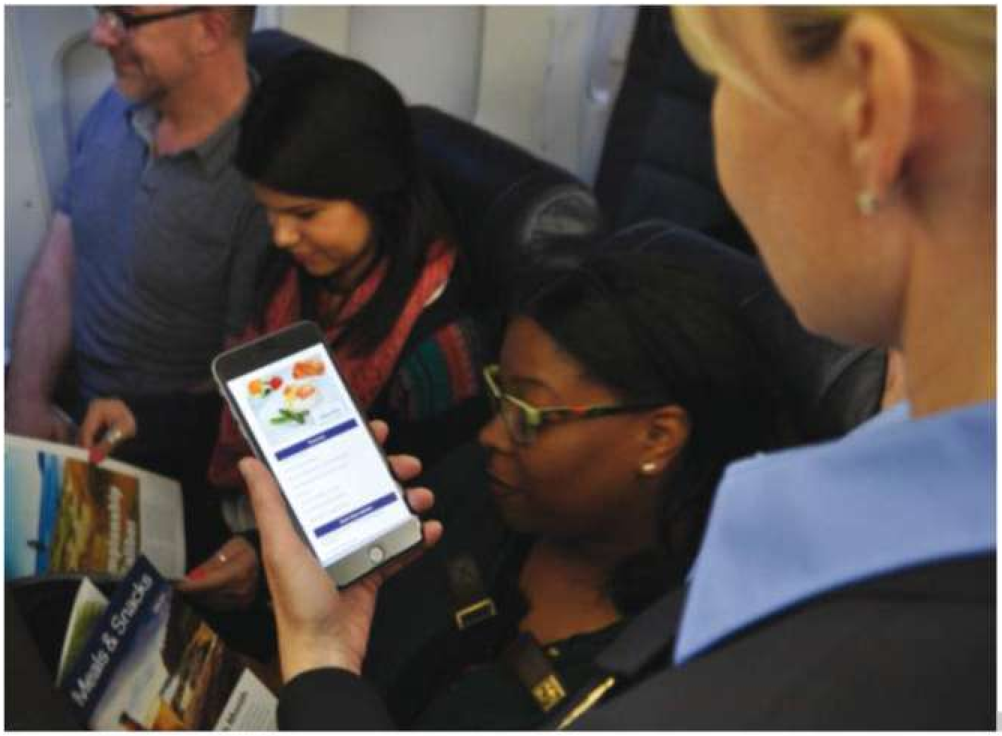
An electronic version of the 2.5-pound paper manual flight attendants previously carried also is loaded onto the devices. "It was a big, square, hulking thing they used to put in their carry-ons that took up a lot of space," says Linda Carlson, American's director of flight service communication and technology.

Now, says Kollau, about two dozen airlines around the world, including Delta, United, JetBlue, British Airways, KLM, Air France, Lufthansa, Iberia, Emirates, Etihad and Qantas, have joined American and other carriers in equipping cabin crew with smartphones, tablets and phablets. Delta Air Lines' 22,000 flight attendants have been using smartphones in the cabin since 2013.

"In the past, we relied on a lot of paper," says Edelyne Remy, a flight attendant-qualified program manager with Delta's onboard services division. "Now we can give real-time feedback to the company on things such as catering discrepancies and missing items on the aircraft. And with our guest services app, we have more information about customers and can interact with them better."

"Equipping crew members with digital devices gives them access to information that allows them to address passengers in a relevant way."

-Raymond Kollau



"Before, all of these things were just on one piece of paper that we'd all have to share ... Now each of us has all the information on our apps."

-Renee Goldfoos

Approximately 3,700 Alaska Airlines flight attendants have been using mobile apps loaded onto iPhone 6 Plus phones since May 2015.

"It's changed our jobs in so many ways," says Renee Goldfoos, who has been an Alaska Airlines flight attendant for 31 years.

In addition to transforming the bidding process and check-in procedures for cabin crew members, Goldfoos says apps on their carrier-issued mobile devices now allow flight attendants to access information such as the seat locations of unaccompanied minors and the location of elite mileage members entitled to special perks.

"Before, all of these things were just on one piece of paper that we'd all have to share, and it was kind of hit or miss whether the printer at the gate had good ink that day or whether a drink got spilled on the paper once we had it in the cabin," says Goldfoos. "Now each of us has all the information on our apps."

This summer, United Airlines issued iPhone 6 Plus smartphones to more than 20,000 flight attendants. Stephanie Lex, a flight attendant with the airline, now uses United's customer service app to resolve problems such as when two people show up with boarding passes for the same seat. "Before, I'd have to call the gate agents and wait for them to come down the ramp with a paper seat assignment chart while people stood around being stressed in the aisle," says Lex. "Now I can use the app to resolve the problem instead of just passing the buck."

Going forward, flight attendants and other airline personal, passengers and third-party developers are exploring additional ways in which the in-cabin devices can be utilized.

The wish list at Alaska Airlines is more than 40 items long, says Shelly Parker, director of Inflight, and includes using the digital devices to list the names of qualified people on a flight who could help out in the event of a medical emergency. Another suggested use is having an in-app form that indicates whether an unaccompanied minor or a passenger with a special need has been given a required briefing.

SITA Lab, which researches air transport technology, is looking at how wearable devices, such as Google Glass and Apple watch, might be integrated with CrewTablet, the SITA OnAir system cabin crew members are using or testing on more than a half-dozen airlines.

Increasing passenger-crew interaction by integrating CrewTablet with the in-flight entertainment systems on airplanes and personalizing the experience more also is on the agenda.

"For instance," says SITA Portfolio Director Toby Tucker, "the airline might be able to send a happy birthday message to an individual's seatback screen."

Whatever the end use, the digital age has reached the sky, and there seems to be no limit to its end uses. ET

HARRIET BASKAS writes the "At the Airport" column for USA TODAY and is the creator of StuckatTheAirport.com.

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Elegance in flight

Hainan's onboard amenities perfectly complement the Dreamliner's state-of-the-art design. Comfortable 180-degree lie-flat seats in business class, gourmet Western and Chinese meals, turndown service and fresh espresso all make for an elegant experience during your flight. A full suite of inflight entertainment ensures all passengers have a relaxing and enjoyable flight.

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For five consecutive years Hainan has received a five-star rating from Skytrax, the international airline ratings organization. Hainan's premier service has long been its hallmark, providing passengers an exquisite experience from the moment they step onboard until they disembark. On the ground, Hainan offers its premium class long-haul passengers amenity-filled lounges and complimentary chauffeured limo service to and from the airport in its Chinese and North American gateways.

International network

Hainan now offers its elite service and innovative products to five cities in North America, including the recently inaugurated San Jose–Beijing route, the only nonstop flight from Silicon Valley to China. Hainan's new partnership with Alaska Airlines allows passengers to earn points on either airline when they fly. And Hainan's participation in Points.com enables even more travelers to experience the elite service and elegant hospitality of Hainan Airlines.

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EVERY YEAR SOMEONE ASKS why we still need an issue devoted to the Most Powerful Women in business. "You'd never run a men's issue," they say. "Aren't you being sexist?" Let's concede the obvious: For decades every issue of *Fortune* (and every other business publication) *was* a men's issue. But as women took on increasingly important roles in corporations, there were finally enough of them to merit a special

By **Jennifer Reingold**

Illustration by STEVEN WILSON

Most

ERFUL

Women

spotlight—hence the creation of *Fortune*'s first MPW ranking back in 1998.

Things have improved since then, though women remain woefully underrepresented in executive suites. Still, the process of assembling this annual list has drawn us to ever more compelling people involved in deals and dramas of ever higher stakes. For proof, check out our main list, with 27 CEOs—including the chiefs of GM, IBM, PepsiCo, and DuPont—whose companies are worth a combined $1 trillion. Or the feature on Kathleen Kennedy, the onetime secretary who runs Lucasfilm. Or the profile of Phebe Novakovic, the CIA operative turned CEO of General Dynamics. Or "The Google Effect," which shows how the search giant is a talent factory for women leaders (of other companies). These insightful and provocative stories reveal how power, leadership, ambition, and, yes, gender are playing out in the heart of business today.

page 80

page 118

page 110

Lucasfilm president Kathleen Kennedy, photographed in July at the company's home base in San Francisco's famed Presidio—some 380 miles north of Hollywood, the moviemaking capital where she is a dominant force

42

KATHLEEN KENNEDY — PRESIDENT LUCASFILM

From Secretary to Studio Boss

Kathleen Kennedy has long worked in the shadows of moviemaking legends such as Steven Spielberg and George Lucas. Now, as her Star Wars megaflick readies for release, she is getting her star turn. It's a tale perfect for Hollywood.

By **Michal Lev-Ram**

Photographs by **JOE PUGLIESE**

NO. 42 KATHLEEN KENNEDY

The blond, dreadlocked German to my left is on the verge of tears. And perhaps a grand mal seizure. “*Oh, mein Gott, oh, mein Gott,*” he says,

hyperventilating as he jumps up and down, his sandaled feet hitting the floor with a series of thuds. In his hands: a small camcorder, which he desperately tries to keep steady while catapulting himself into the air. The footage he's capturing will surely be unwatchable, beyond the corrective capabilities of even the most advanced image-stabilization tools. But right now it doesn't matter. My overly enthused neighbor, one of more than 60,000 frenzied fans who have traversed the globe to attend the Star Wars Celebration in Anaheim this past April, is about to have his mind blown.

This annual gathering of the sci-fi franchise's most fervent followers is the first such event to coincide with a new episode of the space saga in a decade. (Unless you've been living on the remote, icy planet of Hoth, you probably know that *Star Wars: The Force Awakens* is due in theaters Dec. 18.) Celebrants, many of whom camped out in line the night before, file into the Anaheim Convention Center's auditorium. Some are bearing lightsabers (the ones with the new, surprisingly controversial “crossguard” design) and wearing costumes—or at the very least T-shirts emblazoned with the iconic, bulbous-lettered Star Wars logo. Furry Ewoks, robed Jedis, and way too many dual-bunned Princess Leias to count take their seats. But they won't stay seated for long. As composer John Williams's overture, one of the most recognizable motifs in cinematic history, blasts from the sound system, everyone is on his feet. This year's star-studded, opening day presentation will include appearances by Carrie Fisher, Mark Hamill, and other members of the original cast (Harrison Ford, sadly, is still recovering from a recent plane crash), as well as emerging idols from the new film and its red-hot director, J.J. Abrams.

But the biggest newcomer on stage is the queen of the entire intergalactic Star Wars empire. No, not Padmé Amidala, but Kathleen Kennedy.

Kennedy, the president of Lucasfilm and the producer of *The Force Awakens,* appears from stage right, microphone in hand. Her shoulder-length, light-brown hair is salon-grade shiny. Her smart white blazer and dark, fitted pants are board-meeting-ready. But the rainbow-colored Star Wars logo on her T-shirt gives her just the right amount of understated nerd cred.

“Thank you for the pizzas!” one of the adulating fans yells out. The night before, she and Abrams had ordered pizza for those camped out in line. “You're welcome!” shouts back the matriarchal leader of this tribe. Three years ago these were George Lucas's people. They're now Kennedy's. Outside of the

franchise's fanboy and fangirl orbit, however—and beyond Hollywood's inner rings—the longtime movie producer is far from a household name. She is no Lucas or Steven Spielberg. But she has spent decades making movies with both über-directors. In fact, Kennedy is the most prolific female filmmaker in Hollywood, having produced 77 movies in a nearly 40-year career. Her curriculum vitae is chock-full of sky-high-grossing and critically acclaimed blockbusters: *Jurassic Park, E.T. the Extra-Terrestrial,* and *Schindler's List,* to name a few. Collectively these movies have raked in more than $11 billion in worldwide box-office sales and garnered 120 Academy Award nominations.

And yet Kennedy has largely remained in the shadows of the very men who helped propel her career forward—most notably Spielberg. In an industry that often spits out women when they hit "a certain age," Kennedy, 62, is finally coming into her own. Handpicked by Lucas himself, she now presides as president of Lucasfilm, the San Francisco–based company founded by the Star Wars creator in 1971. These days it's up to her, not Lucas, to restore the once-revered studio, steering it out of a 10-year-long funk. It's a story line worthy of an elevator pitch: the secretary turned studio boss. A 21st-century *Working Girl.*

The tale, though, is by no means over. Her task remains a formidable one: returning the franchise to its celebrated roots—making movies that focus on story and character, and less on computer-generated imagery. (One of her first moves: To rework the plotline for *The Force Awakens,* she recruited screenwriter Lawrence Kasdan, who co-wrote some of the most-beloved earlier episodes of the space saga.)

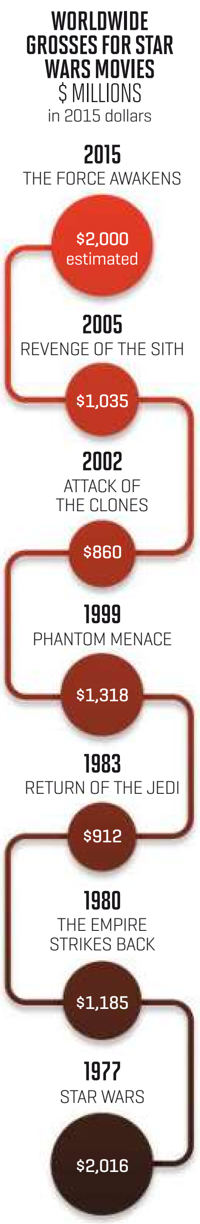
Kennedy has to prove herself to more than just Jedi-wannabes. Right after he brought her into Lucasfilm in 2012, Lucas sold the studio and all its divisions—a special-effects shop and audio production unit, among others—to the Walt Disney Co. for $4 billion. Three years later, as the new Star Wars film nears its much-awaited debut, the pressure and expectations are mounting. "This is

Kennedy's dream team at Lucasfilm, photographed in July. More than half of her direct reports at the 2,000-person company—including Kiri Hart (seated far left), who runs the story department—are women.

TOP ROW, FROM LEFT: Ali Comperchio, Ada Duan, Josh Lowden, Lori Aultman, Rhonda Hjort, Jason McGatlin, Kayleen Walters, Lynne Hale

BOTTOM ROW: (to the right of Hart) Vicki Dobbs Beck, Howard Roffman, Rob Bredow, Lynwen Brennan

NO. 42 KATHLEEN KENNEDY



The six episodes in the Star Wars saga released so far have brought in $7.3 billion in inflation-adjusted dollars, not including reissues of the films. Analysts expect Episode VII, premiering at Christmas, to be one of the biggest box-office draws of the bunch.

a $4 billion movie," Bob Iger, the CEO of Disney, says during a recent phone interview, jokingly referring to the sum he paid for the company. "There is so much riding on this film."

During the recent fan convention in Anaheim, Iger was in the front row, watching Kennedy work the crowd. And he advised the team tasked with putting together a trailer shown at the event—which amassed a record-breaking 88 million views on YouTube in its first 24 hours. "I get involved in certain things because I feel they are important to the company," says Iger. "As I considered my priorities for the year, this [*The Force Awakens*] was one of them."

The wager seems to be well placed. "This has to rank as the most anticipated film in the last 20 years, easily," says Paul Dergarabedian, a senior analyst with box-office research firm Rentrak. Other industry watchers, meanwhile, have been raising their ticket sales estimates. Morgan Stanley's Benjamin Swinburne wrote in a recent report that he expects the film to be "wildly profitable," trailing only 2009's *Avatar* and 1997's *Titanic*. The new Star Wars episode could bring in $650 million in the U.S. alone and $2 billion globally, he predicts—figures within shouting distance of those of most other analysts. That doesn't count the additional $5 billion in merchandise sales (for branded toys, videogames, and other paraphernalia) expected in 2016 alone, nor does it begin to take into account the multi-year-long pipeline of other Star Wars movies, TV shows, and themed amusement park "experiences" now in the works. In other words, Kennedy has enough projects to keep her busy for years to come—and, quite likely, to make the new Lucasfilm head, who reports to Disney Studios chairman Alan Horn but also directly updates Iger (and the board), an indispensable asset to the parent company.

That's all the more important in light of ESPN's slip in the latest quarter. Subscriptions at the money-printing sports network, also owned by Disney, took a "modest" dip, as Iger characterized it in an August call with analysts. (That sent Disney shares down more than 9% in one day.) So the Mouse House could use a new cash cow.

But the rising attention from Disney execs, the press, and would-be Wookiees isn't something Kennedy is accustomed to, nor something she sought. When I join her backstage at the Star Wars Celebration, she tells me: "I've always said that I don't want to be in front of the camera."

She'd better get used to it. By year-end, even those who don't know their Lannik from their Phindians will know who she is. The question will no longer be "Who is Kathleen Kennedy?" but "Why haven't we heard of her yet?"

Act I: KATHY MEETS STEVEN

AMONG KENNEDY'S MANY unsung claims to fame is one—or rather two—particularly challenging cinematic accomplishments: E.T.'s lifelike eyes.

The 1982 flick about a boy who befriends a stranded alien was Kennedy's first producing credit. It was also a giant leap from her small-screen roots. After studying telecommunications and film in the mid-1970s at San Diego State University, she snagged a job as the lone female camera operator at a local television station. One day a few years into her TV production career, she went to see a new sci-fi film, *Close Encounters of the Third Kind*, which was written and directed by Spielberg. The film inspired her so much, she says, she dropped everything and headed north to Los Angeles to break into Hollywood moviemaking. She called up her former college roommate, an actress who was married to director Robert Zemeckis—and the friend got Kennedy her first interview, with filmmaker John Milius, who was developing Spielberg's next movie, *1941*.

Kennedy landed a not-so-glamorous position: as Milius's secretary. One of her first tasks was cataloguing his gun collection (the director and *Apocalypse Now* writer was also a longtime board member of the National Rifle Association). Apparently she had a knack for instilling order—and that caught Spielberg's eye. "I noticed that John had a very organized office," Spielberg recalls during a recent phone interview. "I was watching how Kathy handled all of his incoming requests, and I said, 'Since I'm directing this movie, shouldn't I have a top-notch secretary?'" Spielberg pulled rank and asked Kennedy to work for him.

She didn't last long as the legendary director's note taker—mainly because she wasn't taking any notes. "She was supposed to take minutes at meetings but would spend most of the time talking," says Spielberg. "I was wondering if this was the protocol for secretaries in Hollywood."

The Berkeley-born daughter of a superior court judge father and a stay-at-home mom was both practical and creative, and not afraid to speak her

GRAPHIC SOURCES: RENTRAK; MORGAN STANLEY

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NO. 42 KATHLEEN KENNEDY

Kennedy, clad in a Star Wars Episode VII jacket at San Francisco's Presidio, has mentored a number of women in an industry long dominated by men. "If I'm stuck in a Turkish prison, she is my first phone call," says DreamWorks producer Kristie Macosko Krieger.

mind. Not long after he hired her as a secretary, Spielberg promoted Kennedy, then 26, to be his assistant—a role that was less administrative than it sounds. Then, almost as swiftly, she was named an associate producer. In 1980, when Spielberg began working on *E.T.*—the idea originated as a sequel to *Close Encounters of the Third Kind*—he asked Kennedy to co-produce it with him.

Among her first big challenges: getting E.T.'s eyes to look more human. "There's a famous saying that they are the windows to the soul," says Kennedy. "We knew that for E.T. to feel real, you had to have some connection to his eyes."

Her own eyes are blue, and they light up rapturously when she retells stories from her early days as Spielberg's producing partner. Her primary role, she recalls in a conversation at Lucasfilm's San Francisco headquarters, was to make sure that the fantastical vision for each movie could be brought to life. That was how she found herself speeding off to the Jules Stein Eye Institute, a center for ophthalmology research in Los Angeles, in search of some real-world inspiration. In this case: mountains of prosthetic eyes. "They were literally bringing me these drawers full of eyeballs," she recalls. "You start looking at the irises and the size of pupils and the color of the white around the eye, and you start realizing that there's so much variety."

Kennedy persuaded the young woman working at the institute to let her borrow two palettes of "ocular prosthetics," promising to return them that same day. She hurried back to Spielberg, who was simultaneously shooting a new horror movie. "I go running onto the set of *Poltergeist*," says Kennedy. "And we went through the eyes and figured out what combination of colors we wanted for E.T. And then I raced back." Kennedy asked the young woman at the institute to paint the model for E.T.'s eyes. The woman wasn't allowed to get paid for doing any outside work, so the quick-witted producer came up with a different plan: Kennedy would furnish her apartment instead out of the film's budget. "That was our handshake deal," she says, chuckling at the memory. "And she did an absolutely fabulous job—she found the look, she found the soul."

E.T. and his emotive blue eyes went on to break box-office records. And Kennedy's role as Spielberg's indispensable producing sidekick was sealed. "She and Steven were almost the same person," says Dennis Muren, a visual-effects pioneer who has worked at Lucasfilm's Industrial Light & Magic division since 1976 and who collaborated with them on *E.T.* "Both of them are very emotional, and they want to express themselves through their art." Spielberg has another explanation as to why the partnership has worked: "I'm Jewish and she's Irish Catholic, so it was perfect from the get-go." His more serious reason: Kennedy's sense of humor. "In a pressure-cooker-like environment—script development or production—it's a blessing when someone in the middle of a meltdown can find something to make you laugh," he says. Kennedy, meanwhile, lavishes credit on her mentor, who trusted in her abilities. "I was doing everything, whether it was finding the writer, developing the script, putting the production crew together, finding a storyboard artist," she says. "Whatever it was that was needed, he'd just say, 'You do it.' So it was trial by fire. I just dove in."

Kennedy's many creative partners attest to her ability to stay calm when the storm inevitably hits. "If I'm stuck in a Turkish prison, she is my first phone call," says Kristie Macosko Krieger, a DreamWorks Studios producer whom Kennedy mentored before taking on the top job at Lucasfilm. But her thirst for perfection and dogged attention to detail—fun fact: she arrived at one of our interviews with three pages of her own typed-up notes—can be daunting to co-workers. "You never bring a problem to her that you don't already have a solution to," says John Swartz, co-producer of *Rogue One,* an upcoming Star Wars spin-off movie, and Kennedy's former assistant. Some who know her well but didn't want their names mentioned have called her "intimidat-

MORE
women are running businesses, earning degrees, and controlling wealth than ever before.
Right now, women have the
POWER
to change the financial landscape, and it's time we worked together to make it happen. How can we do it? Education that empowers. Connections that inspire. Steps you can take right now
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take command of your financial future. Because you've worked hard for your money. It's about time it started working just as hard for
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"SHE WAS SUPPOSED TO TAKE MINUTES AT MEETINGS BUT WOULD **SPEND MOST OF THE TIME TALKING AND WASN'T WRITING ANYTHING DOWN.** I WAS WONDERING IF THIS WAS THE PROTOCOL FOR SECRETARIES IN HOLLYWOOD."

STEVEN SPIELBERG

Above, with Spielberg during the filming of *Empire of the Sun*

ing" and "controlling." But mostly, those around Kennedy describe her as an imaginative yet practical multitasker who can get the impossible done—and fast. "Once I'm determined to make a movie, Kathy goes full speed," says Spielberg. "Sometimes my best advice to her was to slow down."

That may be the one bit of counsel that neither one of them has heeded. Over nearly four decades the two have made dozens of movies together: *The Color Purple, Empire of the Sun, Hook, Munich,* and many more. In addition, Kennedy had her own production company on the side: In 1992 she and her husband, producer Frank Marshall—they've been married for 28 years and have two daughters together—formed The Kennedy/Marshall Company, through which they've made more experimental and critically lauded films, such as *Persepolis* and *The Diving Bell and the Butterfly*.

In the ever-complicated arrangements of Hollywood, Kennedy/Marshall and Spielberg's Amblin Entertainment have also continued to work hand in hand producing movies. In 2011, for example, the two companies collaborated to make a grand biopic of Abraham Lincoln. A year later, when they were wrapping the film, which would eventually be nominated for 12 Oscars and win two, another suitor came calling. It was her old friend George Lucas.

Act II: GEORGE STEALS KATHY FROM STEVEN

KENNEDY AND LUCAS first met when she was still Milius's secretary. At that time, Lucas hadn't yet soured on Tinseltown and was working a few doors down from Milius's office on the Columbia Pictures lot. In the early 1980s, Kennedy, Marshall, Spielberg, and Lucas banded together to make *Indiana Jones and the Raiders of the Lost Ark,* traveling to Tunisia and Hawaii for shoots and partying along the way. "We were all, you know, a group, a clique, whatever," says the 71-year-old Lucas in a rare interview at his office at Skywalker Ranch, just north of San Francisco. (The filmmaker no longer has a day-to-day role at the company but still owns the secluded, sprawling piece of land that once housed all of Lucasfilm.)

Eventually, though, Lucas retreated to his Bay Area refuge, and he and the rest of his *Raiders* crew went off in different professional directions. "Steven is much more of a studio person, and I'm much more of an anti-studio person, so I had my own operation up here," says Lucas, whose counter-establishment rhetoric—much like his silvery hair—only seems to thicken with age.

But by 2012, even with that protective distance from Hollywood, Lucas was feeling burnt out. With Star Wars, he had created a limitless world of fantastical, intergalactic mythologies. The first trilogy, which debuted in 1977, had blown away cinemagoers and critics, pioneered seemingly impossible special effects, and spawned what is probably the longest-lasting and most loyal fan base in movie history. The second Star Wars trilogy, otherwise known as the prequels, launched in 1999. Those movies made a bundle at the box office (a collective $2.4 billion) but received mixed reviews. Lucas was personally lambasted for over-relying on computer-generated images and bringing one of the most annoying alien characters to life—the clumsy Gungan outcast Jar Jar Binks. The criticism wore on him. And as Lucas checked out, Lucasfilm devolved into a stagnant, though still lucrative, entity that fed off of its intellectual-property revenues—a fattened-up Jabba the Hutt who'd eaten too many Klatooine paddy frogs, if you will. "George was just not enjoying it anymore," says Muren, the visual-effects specialist.

Act III: KATHY TAKES OVER COMPANY—AND DOMINATES HOLLYWOOD

LUCAS KNEW IT was time to do something else—but not before he left his baby in capable hands. At first he struggled to come up with a successor. "I racked my brain to figure out who do I trust and who do I know really well and is level-headed, who understands the business side of it but also understands the creative side of it," he says. "And finally I banged into it and said, 'Oh, my God, it's Kathy.'"

To Lucas, Kennedy's ability to maneuver through studio circles while maintaining high artistic standards may have even surpassed that of his old friend Spielberg. "Steven became powerful enough to where he was pretty much left alone," says Lucas. "I mean, he never really exercised his power as far as I was concerned, but Kathy learned how to navigate that world very, very well."

In Lucas's own mind at least, the decision was made. When he invited Kennedy to meet for lunch in New York in April 2012, he asked her if she knew he'd been toying with the idea of retiring. "I thought he wanted to ask me to come up with some names for him," recalls Kennedy. Once she realized he was offering her the job, she almost agreed on the spot. Lucas, though, first had to call Spielberg. "He wasn't technically her boss—it was just about friendship,"

COURTESY OF WARNER BROS. PICTURES

Lucas says. "It was kind of like, 'Oh, by the way, Steven, I'm going to marry your wife.'" (Lucas says Spielberg was initially in shock but came around quickly. Spielberg says he appreciated the gesture.)

By June 2012, Kennedy was named co-chair of Lucasfilm, initially running the studio alongside its founder. She barely had time to settle in, however, before another big shift came along. Unbeknownst to Kennedy, Lucas was already in talks to sell Lucasfilm to Disney. (He had likewise kept Disney in the dark while negotiating with Kennedy.) His original intention had been to stay on for a few years, as his successor transitioned into the company. He would then release the first film in the new trilogy and sell it off, with her at the helm. But, he says, things moved much faster than anticipated. Lucas, who was about to get married to his second wife and was entertaining the idea of having another baby, was eager to escape the daily grind of running a business. "I realized that I could hold on the extra two years, and maybe make another billion dollars," he says. "But at that point, when I was 68, I said, 'Time is more important to me than money.'"

By December, the deal was done: Disney had acquired Lucasfilm, Lucas had stepped down, and Kennedy was now president—working for a new boss, Iger. From the start she had a litany of decisions to make. Though she had helped run Amblin and co-created a second production house with her husband, leading an organization the scale of Lucasfilm—with more than 2,000 employees on three continents—was an exponentially harder challenge. On top of that, Kennedy had to transform the company from one "that hadn't been making movies for some time and that was more of a franchise company into a production company," says former Industrial Light & Magic president Lynwen Brennan.

Lucasfilm was desperately in need of revitalization. It had become the unchallenged master of CGI, but it seemed to have forgotten how to tell great, original tales. A telling point was that it never had a story department, a group that oversees all aspects of content. So Kennedy created one, bringing in Kiri Hart, a former screenwriter, to build out the group. The idea, as the new boss described it, was to create "a kind of institutional knowledge incubator. If somebody's working on an animated TV show or a videogame, they [the story group] know what we're doing on the movie side. Everybody talks to each other."

A still more pressing task, though, was to rethink the story line that Lucas had sketched out for the new Star Wars episode. Kennedy, frankly, wasn't thrilled with the plot. Her new bosses at Disney expected the movie to come out in the summer of 2015, but Kennedy held firm that the project would all come to naught without a great story line at its heart. "Every fiber in my being knew what I needed to do to at least get that movie off and running. So that's what I focused on," she says. "A lot of what they were expecting was, in my mind, unrealistic, because nobody making the deals makes movies."

Kennedy quietly began to enlist Abrams—the hot auteur who had made the TV series *Lost* and the most successful *Star Trek* movies—as director, along with other filmmaking partners, even before getting approval from Disney. "I just went to them directly, and I made them keep a secret," she says. Then she went to Disney, telling them, "You're going to have to trust me, but I need the following people or you will not have a movie." Her new corporate parent consented.

In the midst of all this came a more prosaic challenge: putting the brakes on company expenses. Kennedy began some modest layoffs, particularly within the animation team, and shut down Lucasfilm's gaming division. A few executives, like former chief operating officer Micheline Chau, left voluntarily amid the changes. Kennedy appointed another woman, Brennan, in Chau's stead.

Indeed, the pioneering producer has made a point of hiring and mentoring female managers over the years—more than half of her 18-person executive team, with whom she meets weekly, is female (an anomaly in the movie biz, certainly)—but that said, Kennedy has always been comfortable in a male-ego-driven realm. (Says Lucas: "She was one of the guys.")

If the decades she spent being the sole woman in the room or on set—or on the playing field—fazed her, she doesn't let on. Even though the company she now runs has Lucas's name in it, she is clearly, and confidently, the boss. And if the new Star Wars movie lives up to its hype, she may well be the most powerful woman in Hollywood too.

The skilled water-skier and former quarterback of her seventh-grade football team (yes, a boys' team) is ready for the big leagues—and knows why she's here. "If I could throw the ball farther than any of the guys that they were looking at to be the quarterback," she says, "they wanted me to be the quarterback."

"You know why?" she asks a moment later, her mouth curling into a badass smile. "Because they wanted to win the game."

"I RACKED MY BRAIN TO FIGURE OUT WHO DO I TRUST ... WHO UNDERSTANDS THE BUSINESS SIDE OF IT BUT ALSO UNDERSTANDS THE CREATIVE SIDE OF IT. AND FINALLY I BANGED INTO IT AND SAID, 'OH, MY GOD, IT'S KATHY.'"

GEORGE LUCAS

Kennedy and Lucas (above) confer on the set of *Indiana Jones and the Kingdom of the Crystal Skull.*

COURTESY OF LUCASFILM LTD.

Fortune's

Most Powerful Women List

GUTS AND GRIT. This is what gets a leader on the *Fortune* 50 Most Powerful Women in Business list in 2015. Our new No. 1: Mary Barra, who has skillfully steered $156 billion General Motors through its massive ignition-switch crisis. While the GM chief executive bumps IBM's Ginni Rometty from her three-year pole position in our rankings, two other CEOs, PepsiCo's Indra Nooyi and DuPont's Ellen Kullman, thwarted shareholder activist Nelson Peltz and held on to their top-tier spots. Eleven newcomers on the list (up from nine last year) prove that power shifts constantly, but these tenacious CEOs, along with the chiefs of defense giants Lockheed Martin and General Dynamics, show that women are doing just fine in the business big leagues. The list that follows features 27 CEOs—19 of them leading *Fortune* 500 companies. That's a record. And a vast improvement since 1998—when we launched the MPW list with just two *Fortune* 500 CEOs among the 50. —*Patricia Sellers*

By **KRISTEN BELLSTROM, BETH KOWITT, MICHAL LEV-RAM, LEENA RAO, JENNIFER REINGOLD, PATRICIA SELLERS, ANNE VANDERMEY, PHIL WAHBA, JEN WIECZNER, VALENTINA ZARYA, AND CLAIRE ZILLMAN**

From left: Ginny Rometty (No.3), IBM; Mary Barra (No. 1), General Motors; Rosalind Brewer (No. 15), Sam's Club; Sheryl Sandberg (No. 8), Facebook

NO. 01

MARY BARRA

53, CEO, General Motors

2014 RANK: 2

In her second year as head of the nation's largest automaker, Barra—in the top spot this year—has led the $156-billion-in-sales company out from under the shadow of its 2014 ignition-switch recall. Barra spent $2.9 billion on recalls, which dropped 2014 profits 26%. Yet in recent months she has beaten back headwinds from weak international markets, as sales of expensive trucks and SUVs have soared. Barra was one of the few female CEO participants in the viral #ilooklikeanengineer Twitter campaign, which promoted women in tech.

NO. 02

INDRA NOOYI

59, CEO and Chairman, PepsiCo

3

Nooyi marks her ninth year atop the $66.6 billion snack-and-drink behemoth in a stronger position than she's been in for a long time. She beat back a challenge from activist investor Nelson Peltz, landed a big marketing deal with the NBA, and managed to post 4% organic revenue growth in 2014 even as consumers' tastes have shifted toward kale and quinoa. She removed aspartame from Diet Pepsi this year—and has boosted R&D growth accordingly. Yet people are still eating Lay's—also good news for Nooyi.

NO. 03

GINNI ROMETTY

58, CEO, Chairman, and President, IBM

1

Despite Big Blue's seemingly unstoppable revenue slide—it hasn't reported a year-over-year sales increase in 13 quarters, and 2014 revenue fell 6% to $92.8 billion—Rometty remains atop IBM, though no longer the MPW list. Since taking on the CEO role in 2012, Rometty has shelled out $8.5 billion for more than 30 companies (the latest: Merge Healthcare, snapped up in August for $1 billion). She is restructuring the company to focus on technologies such as Watson, a cognitive computing system, and the cloud.

04

MARILLYN HEWSON

61, CEO, Chairman, and President, Lockheed Martin

— 4

As federal agencies **have scaled back spending on information technology, Hewson has shifted the focus of the $45.6-billion-in-sales defense giant toward building military hardware. She's also considering shedding Lockheed Martin's government IT and technical services businesses. In July, to give the company its own helicopter-building capability, the 32-year Lockheed vet announced the $9 billion purchase of Sikorsky Aircraft, the maker of Black Hawk helicopters. Since taking over as CEO in 2013, Hewson has doubled Lockheed's market cap.**

NO. 05

ELLEN KULLMAN

59, CEO and Chairman, DuPont

— 5

Kullman notched a major (and rare) win against an activist in May when her shareholders voted down Nelson Peltz's proxy fight to split up DuPont and nominate his candidates to its board. Still, you can't fault his attempt to shake things up; revenue declined slightly last year to $36 billion, while profits sank 25% to $3.6 billion. The chemicals conglomerate took a page from Peltz's playbook when it spun off its Chemours subsidiary in July. Kullman maintains it was her own idea all along.

NO. 06

ABIGAIL JOHNSON

53, CEO and President, Fidelity Investments

9

In October 2014, in a long-anticipated move, Abby Johnson succeeded her father, Ned, as CEO of the nation's second-largest fund manager. That puts her in charge of assets totaling $5.3 trillion. She's already cut costs and made major staffing changes—demonstrating that she's not afraid to shake things up. Johnson will need to nurture that bold streak to keep the company moving forward: The trend away from funds run by stock pickers—Fidelity's bread and butter—cost it $16 billion worth of business in 2014.

BARRA: ANDREW HARRER—GETTY IMAGES; ROMETTY: KIYOSHI OTA—GETTY IMAGES; BREWER: COURTESY OF WALMART; SANDBERG: DAVID PAUL MORRIS—GETTY IMAGES; 2: NBCU—GETTY IMAGES; 3: ALEX WONG—GETTY IMAGES; 4: WESLEY MANN; 5: COURTESY OF FORTUNE CONFERENCES; 6: FIDELITY INVESTMENTS—AP

07

MEG WHITMAN

59, CEO, Chairman, and President, Hewlett-Packard

6

By Nov. 1, Whitman will have executed one of the highest-profile separations in corporate history, splitting the beleaguered Hewlett-Packard into two divisions: HP Enterprise, which includes server, storage, and networking products and which she will continue to run, and HP Inc., the PC and printer arm. The road to separation has been rocky for Whitman, filled with layoffs, executive shuffles, and a 30% decline in the stock price this year.

NO. 08

SHERYL SANDBERG

46, COO, Facebook

10

Sandberg's vision of Facebook as a mobile advertising giant is finally becoming a reality. Facebook's profits nearly doubled in 2014, to $2.9 billion, and mobile ad revenue now comprises 76% of its total ad sales, up from 62% in the second quarter of 2014. The next chapter in Sandberg's monetization strategy involves attracting more advertisers to viral photo-sharing app Instagram, which now counts 300 million users. Facebook is also moving to capitalize on the social network's 4 billion video views a day. In May, Sandberg suffered the tragic loss of her husband, technology executive Dave Goldberg. She took his seat on the board of his company, SurveyMonkey, in July.

NO. 09

IRENE ROSENFELD

62, CEO and Chairman, Mondelez International

7

Activist investors Nelson Peltz and Bill Ackman put pressure on Rosenfeld to break Kraft into two companies in 2011. Now Rosenfeld, who runs the resulting $34 billion global snack business, is facing off against both men again. Peltz, who has a board seat, and Ackman, who announced a $5.5 billion (about 7.5%) stake in the company in August, are pressing her to cut costs and increase revenue. She's already implemented zero-based budgeting and closed old factories, which have boosted margins.

NO. 10

PHEBE NOVAKOVIC

57, CEO and Chairman, General Dynamics

11

As its largest customer—the U.S. government—stabilized its defense budget, this onetime spy (see page 118), who took over as CEO in 2013, led General Dynamics to profits of $2.5 billion in 2014. That's up 7% from the previous year. Its Gulfstream jet business, part of its $8.7 billion aerospace division, rebounded from a downturn during the financial crisis as corporate and individual buyers replaced aging fleets. Gulfstream booked almost $1 billion in new orders in 2015's second quarter, its best performance in seven years.

NO. 11

CAROL MEYROWITZ

61, CEO and Chairman, TJX Companies

12

The parent company behind off-price chains like T.J. Maxx and Marshalls is conquering not only its market niche but also the broader world of retail. At the helm since 2007, Meyrowitz has led one of the few successful international expansions of a U.S. retailer. She's continuing the push with an announcement in July that the company would enter Australia. In fiscal 2015, TJX, with $29.1 billion in revenue, surpassed Macy's in size. Meyrowitz added the chairman title in June.

NO. 12

SAFRA CATZ

53, Co-CEO, Oracle

14

One year ago, Catz and former co-president Mark Hurd were named joint CEOs of Oracle, replacing founder Larry Ellison, who remains executive chairman and CTO. While the timing (and structure) was unexpected, Catz has been groomed for the top job for years. Her responsibilities now include the manufacturing, finance, and legal divisions. Oracle remains strong in enterprise technology, bringing in $38.2 billion in its last fiscal year, though growth has waned as competitors such as Workday have emerged; profits in the same year fell 9%.

NO. 13

LYNN GOOD

56, CEO and President, Duke Energy

— 13

Good, CEO since 2013, has spent much of her time at America's largest utility dealing with a massive coal-ash spill and enacting new safety measures. Now she has moved swiftly to bolster Duke's core utility business, investing $2 billion in a new natural-gas pipeline for North Carolina customers, and she hopes to spend another $2 billion to modernize Indiana's electrical grid. Good, who joined the Boeing board in August, also plans to invest $3 billion in renewables over the next five years.

7: DAVID PAUL MORRIS—GETTY IMAGES; 8: ROBERT GALBRAITH—REUTERS; 9: CHRIS RATCLIFFE—GETTY IMAGES; 10: EMILIO NARANJ—EPA/CORBIS; 11: SUZANN KREITER—THE BOSTON GLOBE/GETTY IMAGES; 12: DAVID PAUL MORRIS—GETTY IMAGES; 13: PAT SULLIVAN—AP

NO. 14

HELENA FOULKES

51, President, CVS/pharmacy; EVP, CVS Health

26

After CVS Health's 2014 decision to stop selling tobacco products, Foulkes, who handles $68 billion of CVS's overall $139 billion in revenue (see page 124), followed up with two major initiatives this year: helping oversee the $1.9 billion purchase of Target's prescription-filling business—a deal that will give CVS the most pharmacy locations in the U.S.—and launching upgraded beauty and healthy food sections in many of the stores.

15

ROSALIND BREWER

53, CEO and President, Sam's Club, Walmart

— 15

Sam's Club contributes only 12% of Walmart's total revenue, but the warehouse club division's $58 billion in sales makes it the eighth-largest retailer in the U.S. In fiscal 2015, Brewer managed to increase Sam's operating income faster than revenue, which has been disappointing; same-store sales were flat. The Lockheed board member is investing in digital and going big on health and wellness, more than doubling the organic offerings at Sam's Clubs.

NO. 16

ANGELA AHRENDTS

55, SVP, Retail and Online Stores, Apple

29

Just over a year into her tenure as Apple's retail chief, the former CEO of Burberry is making her mark on the $183 billion tech giant (see page 100). Ahrendts spearheaded the retail launch of the Apple Watch, which has received mixed reviews. Her other focus has been integrating Apple's online and retail divisions, as well as expanding its China presence. She's being paid well to do it: The first woman on Apple's management team took home a package valued at $73.4 million in cash and stock in 2014.

NO. 17

URSULA BURNS

56, CEO and Chairman, Xerox

— 17

Now in her sixth year running Xerox, Burns continues to steer the company away from printing hardware and toward software-oriented products, such as a disease-tracking platform and management tools for "smart" parking systems. In June she completed the sale of Xerox's IT outsourcing business, and she has pledged to spend up to $400 million on acquisitions this year. The new businesses aren't offsetting declines in Xerox's traditional products—the company's 2014 revenue, at $19.5 billion, fell 2% from the year before.

NO. 18

MARISSA MAYER

40, CEO and President, Yahoo

16

Mayer continues to talk up Yahoo's turnaround plan, even as 2014 revenue stayed flat at $4.6 billion and its stock has fallen 35% since January. She maintains her focus on mobile and video advertising, and has been aggressively inking content and media deals, including one to host the first-ever live webcast of a regular-season NFL game. Now the Chinese market collapse tarnishes Mayer's planned spinoff of Yahoo's massive stake in e-commerce juggernaut Alibaba. Also ahead for Mayer: twin girls in December.

NO. 19

SUSAN WOJCICKI

47, CEO, YouTube, Google

— 19

YouTube's CEO since early 2014, Wojcicki (see page 110) has worked to turn the massive video site into a viable business. Now that half of YouTube's views come from mobile devices, she has revamped its mobile app. With some $4 billion in revenue, YouTube delivers only a small fraction of Google's overall $71.5 billion in sales, but it is growing fast as it recruits content creators and advertisers to compete with an increasingly aggressive Facebook. Under Google's recent restructuring, Wojcicki now reports to new CEO Sundar Pichai.

NO. 20

PAM NICHOLSON

55, CEO and President, Enterprise Holdings

22

As the CEO of Enterprise Holdings, whose Enterprise, National, and Alamo brands make up almost half of America's rental-car market, Nicholson is the travel industry's top woman. A 34-year Enterprise veteran, she became the company's first nonfamily CEO in 2013. Since then she's both grown the U.S. business and expanded overseas, boosting revenue 18% to a projected $19.4 billion this year. Up next? A deal with Nissan to bring its car-sharing business to millennials via 90 college campuses.

14: COURTESY OF CVS HEALTH; 15: SARAH BENTHAM—GETTY IMAGES; 16: DAVE M. BENETT—GETTY IMAGES; 17: RON SACHS—GETTY IMAGES; 18: COURTESY OF FORTUNE CONFERENCES; 19: BENJAMIN RASMUSSEN; 20: COURTESY ENTERPRISE HOLDINGS

21

CATHY ENGELBERT
50, CEO, Deloitte LLP

NEW

Engelbert, a 30-year Deloitte veteran, made history in March when she become the first woman to be named CEO of a Big Four consulting firm in the U.S. Deloitte is the largest professional services firm in the nation, with $14.9 billion in revenue and 70,000 employees; Engelbert plans to hire 25,000 more in 2016. Before getting the CEO nod, the former college basketball star served as head of Deloitte LLP's audit subsidiary.

NO. 22

HEATHER BRESCH
46, CEO, Mylan

31

Bresch has overseen a lot of drama at generic-drug maker Mylan in her nearly four years as CEO (see page 132). After acquiring part of Abbott Laboratories earlier this year, Bresch moved the $7.7 billion Mylan to the Netherlands in a controversial "tax inversion" play, then thwarted a plan from Israel-based Teva to buy Mylan for $40 billion. Now Bresch is trying her own hostile takeover of Ireland-based Perrigo.

NO. 23

DEBRA REED
59, CEO and Chairman, Sempra Energy

30

The first in her family to graduate from college, Reed became the $11-billion-in-sales energy services company's first female CEO in 2011. Now she's pushing to expand, planning to invest more than $19 billion over the next five years in utilities and infrastructure in the U.S., Mexico, and South America. Despite the volatility in the industry, Sempra's stock has risen 80% during Reed's tenure.

NO. 24

DENISE MORRISON
61, CEO and President, Campbell Soup

— 24

Morrison has been one of the most vocal CEOs when it comes to addressing the challenges facing Big Food. Since she took the top job in 2011, she has attempted to remake the iconic company to appeal to consumers shifting their eating habits toward healthy and fresh. Campbell has acquired natural food brands like Bolthouse Farms, Plum Organics, and, in June, Garden Fresh Gourmet.

NO. 25

SUSAN CAMERON
56, CEO and President, Reynolds American

36

In the second year of Cameron's second stint as CEO of Reynolds American, the nation's No. 2 cigarette maker closed the $27.4 billion purchase of rival Lorillard—the largest deal ever led by a female CEO. Cameron has also fulfilled her promise to make Reynolds what she calls the "vaper authority": Its Vuse became the nation's bestselling e-cigarette—with 33.6% of the market—in the year since its nationwide release.

NO. 26

RUTH PORAT
57, SVP and CFO, Google and Alphabet

NEW

In a surprise hire, Google tapped the former Morgan Stanley CFO as its finance chief in May. Just three months later, Porat (see page 110) gained even more clout when Google created a holding company, Alphabet, to oversee Google and its other businesses—and named her CFO of that company too. She's off to a good start: After presenting second-quarter 2015 earnings, Google's market cap rose by $65 billion.

NO. 27

CARRIE TOLSTEDT
55, Senior EVP, Community Banking, Wells Fargo

34

Tolstedt, who moves up seven spots this year, is the woman behind every interaction that Wells Fargo's 22 million retail households have with the bank. She leads 102,000 team members and oversees about 6,200 retail locations. Her sector has been hamstrung by the current interest rate environment, but it's well positioned if the Fed finally nudges rates upward.

NO. 28

SANDRA PETERSON
56, Group Worldwide Chairman, Johnson & Johnson

20

Its stock price has flagged of late, but J&J's revenue rose more than 4% last year to $74.3 billion, driven in part by Peterson, who heads four product segments worth $20 billion—including one of the fastest-growing consumer packaged-goods businesses in the U.S. last year. She also oversees IT and the supply chain for all of J&J.

21: PETER YANG—AUGUST; 22: ANDREW HETHERINGTON; 23: AP IMAGES; 24: PATRICK JAMES MILLER; 25: WESLEY MANN; 26: CHIP SOMODEVILLA—GETTY IMAGES; 27: COURTESY OF WELLS FARGO; 28: ANDREW HARPER—GETTY IMAGES

29

MARY ERDOES

48, CEO, J.P. Morgan Chase Asset Management, J.P. Morgan Chase

32

AFTER WORKING in various finance roles at Bankers Trust and elsewhere, Erdoes joined J.P. Morgan's asset management arm in 1996 as the head of fixed income. In 2009 she was promoted to CEO of asset management. During her time as CEO, revenue has risen 50%, to $12 billion, and the group now boasts $1.8 trillion in assets. Erdoes is actively involved in promoting gender diversity at the bank.

30

JUDITH McKENNA

49, EVP and COO, Walmart U.S., Walmart

NEW

McKenna was chief development officer of Walmart U.S. until December, when she was promoted to head operations of the $288-billion-in-revenue domestic business. In her first quarter, the U.S. division's store traffic increased for the first time since late 2012. McKenna is behind the opening of four new U.S. e-commerce fulfillment centers, the expansion of online grocery-shopping services, and Walmart's push to open more than 200 new stores this year. She also helped lead the company's initiative to increase starting wages to $9 in April.

NO. 31

MARIANNE LAKE

46, CFO, J.P. Morgan Chase

46

London native Lake, trained in physics, has held the CFO post at J.P. Morgan Chase for nearly three years now, overseeing a balance sheet with $2.4 trillion in assets. She is one of two women, including Erdoes, on the bank's 10-person operating committee. Lake stepped into the spotlight this past summer when CEO Jamie Dimon announced that she would be taking on a bigger role on earnings calls.

NO. 32

KATHLEEN MURPHY

52, President, Personal Investing, Fidelity Investments

42

Abby Johnson's promotion to Fidelity CEO was a boost for Murphy, handpicked by Johnson in 2009 to lead the company's personal investing sector. Given her boss's dislike of the spotlight, Murphy may take an increasingly high-profile role at Fidelity—one reason she's jumping 10 spots this year. It doesn't hurt that she has $1.8 trillion in assets under administration.

NO. 33

MARGARET KEANE

56, CEO and President, Synchrony Financial

NEW

Keane is the first CEO of Synchrony Financial, the consumer finance business that was spun off from General Electric in the summer of 2014. She began as a debt collector at Citi, then rose through the ranks at GE to head the business that became Synchrony. The company reported net interest income of $11.3 billion at the end of 2014, and its stock price has risen 40% since the IPO.

NO. 34

BARBARA RENTLER

58, CEO, Ross Stores

37

Rentler took the top job at Ross in the middle of its fiscal 2014, which turned out to be a banner year for the off-price retailer. Sales, earnings, and operating margins all jumped, and in June it split its stock two-for-one. But in August, Rentler warned that the second half of 2015 could be challenging.

NO. 35

BRIDGET VAN KRALINGEN

52, SVP, IBM Global Business Services, IBM

33

Van Kralingen oversees a business worth an estimated $19 billion, most of which is made up of IBM's global business services division, its internal IT consultancy. GBS's sales fell 3.1% in 2014, so she is focusing on products such as analytics and helms a partnership with Apple.

NO. 36

CAROLYN TASTAD

54, Group President, North America, Procter & Gamble

NEW

In January the Canadian-born Tastad became the new head of P&G's struggling North America division. She now oversees P&G's largest market, with approximately $30 billion of the company's $76.3 billion in sales, though the unit has shrunk as P&G sells off nonperforming brands. It's a tough go at P&G right now: In the fourth quarter of fiscal 2015, P&G's overall sales fell 9%.

29: HEIDI GUTMAN—CNBC/GETTY IMAGES; 30: COURTESY WALMART; 31: JIN LEE—GETTY IMAGES; 32: COURTESY OF FIDELITY INVESTMENTS; 33: COURTESY OF SYNCHRONY FINANCIAL; 35: COURTESY OF IBM; 36: COURTESY OF PROCTER & GAMBLE

NO. 37

ANN-MARIE CAMPBELL
50, President, Southern Division, Home Depot

38

Home Depot continues to outperform—and so does Campbell, now driving about one-third of revenues at the $83.2 billion retailer, whose same-store sales rose 5.7% in 2015's second quarter. The Jamaican-born onetime cashier spends most of her time in her region's 700-odd stores, where she's known as a prolific tweeter and champion of customer service.

NO. 38

MICHELLE GLOECKLER
49, EVP, Consumables and Health and Wellness; U.S. Manufacturing Lead, Walmart U.S., Walmart

NEW

In her current role since June 2014, Gloeckler oversees strategy for Walmart U.S.'s health and wellness business, as well as merchandising for segments such as beauty. She manages a whopping $78 billion of the company's revenue. Gloeckler is also leading Walmart's initiative to buy $250 billion of domestic-made products in the next decade.

NO. 39

SHARI BALLARD
49, President of U.S. Retail and Chief Human Resources Officer, Best Buy

RETURN

The electronics retailer is showing signs of health after a three-year turnaround plan incorporating over $1 billion in cost cuts. One of the only members of the old regime to stay on, Ballard moved up last year to head U.S. retail—81% of Best Buy's $40.3 billion in revenue. The segment's sales have recently grown again after years of declines.

NO. 40

CRYSTAL HANLON
50, President, Northern Division, Home Depot

NEW

In August, Hanlon was named to run Home Depot's Northern Division, which covers some 800 stores in the Midwest and Northeast, with estimated revenue of $27 billion. Hanlon started in 1985 as a cashier, intending to help pay for her training as a physical therapist. She never finished—good news for the company and the 110,000 associates she now manages.

NO. 41

JANE FRASER
48, CEO of Citigroup Latin America, Citigroup

48

Fraser has been racking up promotions at a blistering pace. In 2014 she was named Citi's head of global mortgages and also picked up the bank's consumer and commercial banking business. Then, in April, she was named CEO of Latin America. Fraser—who moves up seven places this year—is on a short list of possible successors to Citi CEO Michael Corbat.

NO. 42

KATHLEEN KENNEDY
62, President, Lucasfilm, Walt Disney

NEW

Kennedy, long behind the scenes, is finally taking center stage [see page 80]. In 2012 the onetime assistant to Steven Spielberg was tapped to run Lucasfilm—right before founder George Lucas sold the studio to the Walt Disney Co. for $4 billion. This December the breathlessly anticipated latest chapter of the Star Wars saga—produced by Kennedy—should bring in $2 billion at the box office alone.

NO. 43

DIANE BRYANT
53, SVP and General Manager, Data Center Group, Intel

NEW

The former CIO now runs Intel's data-center division, which raked in more than $14 billion in 2014 and—unlike the mobile group—grew 18% last year. Bryant, who has said she never even intended to go to college, studied engineering and has been with the chipmaker since 1985. With president Renée James leaving, she will soon be the highest-ranking woman at Intel.

44

LYNNE DOUGHTIE
52, CEO and Chairman, KPMG U.S.

NEW

After three decades at KPMG in both the audit and advisory businesses, Doughtie became head of the professional services firm in July. KPMG's 12% year-over-year revenue growth in the U.S.—to nearly $7 billion in fiscal 2014—makes it the fastest growing of the Big Four. In addition to overseeing more than 27,000 people, Doughtie leads KPMG's efforts to boost the number of C-suite women.

37: COURTESY OF HOME DEPOT; 38: COURTESY OF WALMART; 39: COURTESY OF BEST BUY; 40: COURTESY OF HOME DEPOT; 41: COURTESY OF CITIBANK; 42: JOE PUGLIESE; 43: COURTESY OF INTEL; 44: DAVID CANNON—GETTY IMAGES

NO. 45

ILENE GORDON

62, CEO, Chairman, and President, Ingredion

40

Since joining Corn Products International—Ingredion's former name—in 2009, Gordon has invested heavily in specialty ingredients, riding (and fueling) the world's non-GMO and gluten-free trends. This year she bought two ingredient companies, Penford and Kerr Concentrates. Ingredion shareholders have seen the stock triple during Gordon's tenure.

NO. 46

DEBRA CREW

44, President and Chief Commercial Officer, R.J. Reynolds Tobacco, Reynolds American

44

Who would have expected Crew, the former head of PepsiCo's North America nutrition unit, to join Reynolds American as head of its cigarette business? She did, last year, then helped integrate Reynolds's $27.4 billion purchase of Lorillard. Crew will oversee $8.8 billion of Reynolds's estimated $11 billion in post-merger sales and could succeed CEO Cameron.

NO. 47

KIM LUBEL

51, CEO, Chairman, and President, CST Brands

RETURN

Lubel has led CST—one of the largest independent fuel retailers and convenience-store operators, with $10.8 billion in sales—since its 2013 spinoff from Valero Energy, where she was EVP and general counsel. She's been on an acquisition tear, doubling the *Fortune* 500 company's reach in fuel distribution. Last year CST sold 2.9 billion gallons of fuel to the public in the U.S. and Canada.

NO. 48

BETH MOONEY

60, CEO and Chairman, KeyCorp

47

The first woman to lead one of the country's top 20 banks, Mooney oversees assets of nearly $95 billion. She's credited with helping KeyCorp survive the financial crisis and for increasing the stock price by more than 50% during her four-year tenure. Now she's working to move KeyCorp ahead on technology, buying a tech-focused investment bank and partnering with Apple Pay and Hello Wallet.

NO. 49

SHERI McCOY

56, CEO, Avon Products

27

More than three years in, McCoy is still trying to fix the direct seller of beauty products—which has caused her to fall in our ranking. In 2014, Avon reported its third straight annual loss; the stock is down some 65% over the past year. Overseas, the company was hit by a strong U.S. dollar. And while the North American business is on track to be profitable this year, its army of Avon ladies is dwindling.

NO. 50

BETH COMSTOCK

55, Vice Chair, General Electric

NEW

She's the first chief marketing officer to make the list. But she also oversees GE's $3 billion lighting business, plus venture investing and licensing. In August, GE CEO Jeff Immelt made Comstock a vice chair—the first woman to hold that title at the company. Her charge: leading business innovation across GE. She's also on Nike's board.

51

BONUS PICK!

TAYLOR SWIFT

25, Singer; Music and Technology Industry Disrupter

NEW

IT'S RARE THESE DAYS that a pop star becomes known for more than diva behavior. But Taylor Swift is famous for her industry clout—which is why we're giving her a bonus spot on the MPW list. Sure, she rocked it in her day job with *1989*, the fastest-selling album of the past decade, with four No. 1 hits and one of the largest-grossing North American tours this year. But by refusing to put her music on Spotify and then, in June, forcing Apple Music to change the way it compensated musicians during its trial period, she's shifted the power dynamic back toward the artists. She's also become an increasingly vocal advocate for female empowerment. Go, Team Taylor!

45: COURTESY OF INGREDION; 46: COURTESY OF R.J. REYNOLDS TOBACCO; 47: COURTESY OF CST BRANDS; 48: COURTESY OF KEYCORP; 49: PETER YANG; 50: NELSON BARNARD—GETTY IMAGES; 51: JUN SATO—GETTY IMAGES

Condoleezza Rice

66th U.S. Secretary of State

CONDOLEEZZA RICE WAS A POWER PLAYER BEFORE she ever took up golf. Today, the game is one of her favorite passions. Rice was the first African-American woman to serve as U.S. Secretary of State as well as one of the first women to become a member at Augusta National Golf Club. She makes time to play in between her myriad responsibilities, including her work as Denning Professor for Stanford's Global Center for Business and the Economy. She served in June as keynote speaker during the KPMG Women's Leadership Summit, part of the KPMG Women's PGA Championship.

What makes sports—and golf in particular—so valuable for women? Why is it important for them to get involved? Well, sports is in some ways a lot like life. You work very hard at it. And they teach you perseverance, in a way that almost nothing else does, because the experience is so immediate. You succeed and you fail so immediately, and you can't be crushed by having succeeded or failed on that day at that competition, or in golf on that hole when you have to go on to the next hole. What's more, athletes are committed and have great time management skills. They know how to overcome adversity, and the ones who play on teams know how to work with teammates. Those skills are irreplaceable, and I almost think you cannot get it from anything else. I've never seen anything do it like sports.

What's most important to you when assembling a team? Chemistry and synergy are important, but for me that comes from people who have different perspectives, backgrounds and experiences. I like the cacophony of people bouncing different views off of one another. I can't stand it when everybody in the room says "Amen" to everything I say. If you are in a position of authority and don't have truth-tellers around you, people who will say, "You're off base here," you are not going to be a very good leader.

Students must often ask you about how to become a leader. What do you tell them? You don't become CEO or Secretary of State as your first job. You have some time to develop the skills, confidence and sense of purpose that goes with ever-increasing responsibility and leadership. Prepare yourself by learning to be a really good communicator, whether in writing or verbally. Prepare yourself by learning to organize other people and to develop leadership characteristics in others. A lot of leadership is recognizing and nurturing leadership, or you're going to be out there by yourself with nobody following.

Mentorship is clearly one of your passions. I am a big believer in role models and mentors. It is great if your role model or your mentor looks like you, but sometimes you have to recognize that may not be the case—otherwise there would be no firsts. If I had been waiting for a black female Soviet specialist role model, I'd still be waiting. So find your mentors and role models in people who advocate for you and care for you, and maybe you'll be the first and become a role model for somebody else.

Rice believes different perspectives are essential for creating chemistry when building a team.

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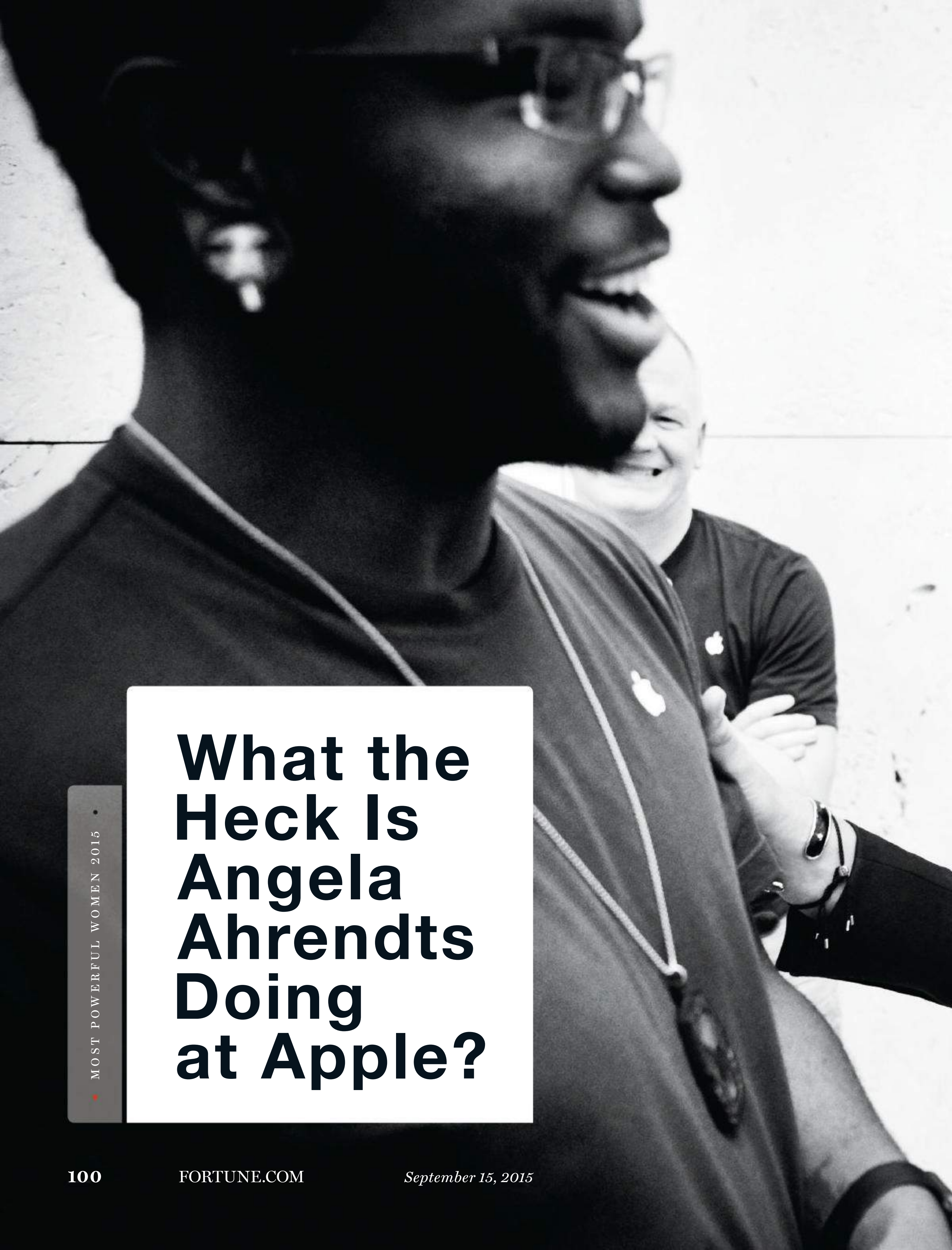

MOST POWERFUL WOMEN 2015

What the Heck Is Angela Ahrendts Doing at Apple?

16

ANGELA AHRENDTS

SVP RETAIL AND ONLINE STORES / APPLE

She gave up a starring role as Burberry's CEO to run the tech giant's retail and online operations. As Ahrendts reveals in this *Fortune* exclusive, she's starting not with the product—but with the people.

By **Jennifer Reingold**

Photographs by **JOE PUGLIESE**

NO. 16 ANGELA AHRENDTS

"What's your favorite smell, and why?" It's fair to say this isn't the question Angela Ahrendts, Apple's senior vice president for retail

and online, was expecting. She's talking with some 100 employees who are gathered on a recent day in the company's Boylston Street store in Boston, and she has just told them they can ask her anything. More predictable inquiries might have been, "What are you doing to revitalize the stores' workforce?" which, until Ahrendts showed up in May 2014, hadn't had a boss for more than a year. Or "How can we do a better job selling the Apple watch?" (Read on for her answers to both.)

But right now, Ahrendts—whose tailored jacket, crisp white blouse, crucifix, and towering heels provide quite a contrast to the T-shirts and sneakers of the store's team (not to mention their colorful collection of beards, tats, and piercings)—must talk scents, after spending a good 20 minutes chatting, shaking hands, and posing for selfies.

The question poser, store manager Marc Flynn, receives the full Ahrendts treatment: intense eye contact. Beatific dimpled smile. Thoughtful pause. A deep breath. "The smell of a cigar," she finally says with mock gravitas. "Cigars. My father smoked cigars his whole life, and my husband once in a while does. And when he does, it reminds me of my father. It's a heartwarming thing."

Olfactory preferences aside, there are lots of things people wonder about Ahrendts. Why did she, the celebrated architect of Burberry's turnaround, give up her post as CEO and uproot her family to become, at best, the third or fourth most powerful executive at the $183-billion-in-sales tech giant? Here's another: What does Apple think Ahrendts—whom it paid an astounding $73.4 million in stock and cash in her first year—brings to a company that has redefined the technology and retail sectors, one that, at this point, seems not to need a whole lot of anything? And a third: What has she accomplished so far?

On a visit to Apple's Cupertino headquarters, *Fortune* spoke with Ahrendts, 55, and her boss, CEO Tim Cook, about her role and their longer-term plans. The first in-depth interview Ahrendts has given at Apple, it answers some of the questions above—and reveals a lot about the company's evolving philosophy.

Ahrendts has implemented some important changes since arriving, including unifying previously separate units that handled online sales and store sales. But so far her impact on the stores themselves has been modest to the outside eye.

What Cook hired her for was not just her retail savvy—after all, Apple's stores were already the most profitable in the world—but also her leadership. Ahrendts is the kind of person who can conjure passion from people selling scarves, trench coats, or—now—wearable computers disguised as watches. Says Sir John Peace, chairman of Burberry and Standard Chartered: "She motivates people. She inspires people. And she is the sort of person who wants to see things succeed as a team. It's a rare quality."

Cook lured her out West to bring even more shine to what is already one of the great successes of this—or any—era. Complacency has felled many legendary companies, and Apple, a place where transformative hits have become routine, knows it is not immune.

Ahrendts believes the key to the company's future is not just marvelous products, but also engaging and energizing its nearly 100,000 employees, 60% of whom now work in the $21.5 billion retail division. "If you're going to employ people anyway," she says, "why not make them the differentiator? They're not a commodity." Now that there are 459 Apple stores in 15 countries, many people have their first Apple experience inside a store—a first impression that could forever tarnish the brand if it's not good. "Burberry was about building a relationship," she says. "But it was always about selling an amazing product that you would have forever. Apple is just a deeper relationship with a much broader constituency. Because it's everybody."

That human touch is one reason the Apple stores have been wildly successful from the start. Steve Jobs and Ron Johnson, who set up the original Apple stores in 2001, shook up retail with the Genius Bar and its helpful, highly trained workers.

Now Apple wants to go even further. It has slowly become clear that Cook, who took over just

Above and on previous spread: Ahrendts meets workers at an Apple store in Miami, one of more than 100 such visits she has made.

NO. 16 **ANGELA AHRENDTS**

before Jobs' death in 2011, is developing broader goals, in which the company uses its success to accelerate social change. The ideas, it seems, are just taking shape, but they involve enlarging the role of its stores. Apple has always intended for each of them to be a community center; now Cook and Ahrendts want them to be *the* community center. That means expanding from serving existing and potential customers to, say, creating opportunities for underserved minorities and women. "In my mind," Ahrendts says, store leaders "are the mayors of their community."

What would Apple's late co-founder think of such touchy-feely ideas? Is Ahrendts onto something, or is she merely an executive at a high-flying enterprise with the luxury of $203 billion in cash to try out well-intended but possibly ill-conceived experiments? Apple is, of course, a publicly traded company, with the largest market value in the world. Is its reach for something beyond profits an example of corporations at their best? Or is it a sign of hubris, the equivalent of the old truism that a company has peaked when it decides to build a lavish new headquarters? (Speaking of which, Apple's $5 billion Norman Foster–designed "spaceship" HQ is set to open next year.)

It's far too early to say, of course. But one thing Ahrendts is adamant about: The initiatives will make business sense for the company.

"THE MORE TECHNOLOGICALLY ADVANCED OUR SOCIETY BECOMES, **THE MORE WE NEED TO GO BACK TO THE BASIC FUNDAMENTALS OF HUMAN COMMUNICATION."**

ANGELA AHRENDTS

AHRENDTS HARDLY NEEDED a new start before she came to Apple. The small-town Indiana native had topped off a 30-year retail career, which included stops at Warnaco, Donna Karan, and Liz Claiborne, by becoming Burberry's CEO in 2006. She managed an improbable feat, making the once overexposed plaid cool again with the global young and connected. She did it by understanding that that crowd was experiencing even brick-and-mortar retail through a digital lens, at the time a rare insight.

Ahrendts amped up Burberry's online sales and brought technology to her boutiques—screening runway shows there, for example—and to her executives. On the first day iPads were available, she presented each member of her management group with one—and brought in Apple Geniuses to help with setup. She later provided one to every store worker. "She saw it all coming," says Stacey Cartwright, Burberry's former CFO and now chief executive of Harvey Nichols. Ahrendts was photographed for the cover of *Fortune*'s Asia-Pacific edition in 2012 holding not a Burberry trench coat but an iPad.

And then Cook called. After Johnson left Apple Retail to become the CEO of J.C. Penney in 2011, Cook hired John Browett, a British retail executive, to expand the stores. Cook quickly realized he had made a grievous error: Browett, he says, was "not a cultural fit." (Used to running chains with thinner margins, Browett inflamed Apple's retail staff by cutting work hours and benefits. When he left after just five months, Cook reversed the changes.)

What the CEO wanted now was someone who could revitalize the retail culture—as well as integrate Apple's online and retail operations, which were still, in 2014, run separately. He struggled. Then he checked out Ahrendts. "I visited Burberry stores and spent some time online. And you could tell that she got it at a deep level." Cook was also fascinated by her 2011 TEDx talk, "The Power of Human Energy," which laid out her vision of leadership, one more about people than process and the team rather than the hero—one that squares with Cook's own vision. One key line: "The more technologically advanced our society becomes, the more we need to go back to the basic fundamentals of human communication."

Says Cook: "The moment I met her, that was it. And then it was all recruiting."

The courtship was a slow one. Ahrendts would have to relinquish her CEO title, move her husband and three kids—the youngest of which was still in high school—5,000 miles from London to the Bay Area, and change industries. She was nervous. She says she told Cook, "'Don't believe everything you read. I'm not a techie.' And he looks at me, and he goes, 'I think we have enough techies here.' And I said, 'But you don't understand. I'm not even really a great retailer. I hired great retailers.' And he said, 'Well, last time I looked we were one of the highest-productivity-per-square-foot stores of any company on the planet. So I think we have a lot of those too.'"

The introverted Cook lights up when asked how Ahrendts has done in her 16 months at Apple. "It felt like she'd been here a decade her first day," he says. "I knew she was going to be off the charts, but she's even more off the charts than I thought. She came in so fast, there was no [learning] curve. I've never met a single individual like that before."

PART OF AHRENDTS'S INITIAL strategy for fitting in at Apple was to stay under the radar (the company agreed to participate for this article only when it

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NO. 16 **ANGELA AHRENDTS**

Ahrendts, holding an iPad, on the cover of *Fortune's* Asia-Pacific edition in 2012. She was quick to bring technology into Burberry's stores and executive suite.

became clear that *Fortune* was writing it regardless of whether she consented to be interviewed). As a result, few outsiders have a handle on what, exactly, Ahrendt has been doing, apart from small tweaks like new shirts for the sales staff (they can choose between T-shirts and polos), moving iPods to the back of stores, and deciding to no longer use the iPad to show prices on display tables. Says Marc Heller, who runs consultancy RetailSails: "My struggle with understanding what she does is I don't know where her imprint is, other than the obvious."

This was by design. "I didn't dare say anything prior to six months," Ahrendts says. "My dad used to tell me, growing up [citing Abraham Lincoln], 'It is better to remain silent and be thought a fool than to open your mouth and relieve them of all doubt.' So I kept remembering that and chose not to overcommunicate." In the meantime, she embarked on a Hillary Clinton–style listening tour, visiting more than 100 stores, call centers, and back offices so far, answering questions, hearing complaints, and bestowing her infectious energy and empathy on employees. (You could call her Apple's chief emotive officer.)

What did she learn from all that listening? First, that the store culture needed a jump-start. Morale had suffered with the management turnover, and employees complained about a lack of trust. For example, store workers have to submit to bag searches at the end of the day to ensure they haven't stolen anything. (Apple says the searches, which continue today, are common industry practice.)

One of the first things Ahrendts did was institute a now-weekly video communication in which she lays out the game plan. It may seem small, but every Apple store employee I spoke with cited it as a welcome change. The video is a combination pep rally and strategy session, with three key thoughts expressed in a few minutes. (Ahrendts has training in pep rallies: She was a varsity cheerleader at New Palestine High School back home in Indiana.)

Last February, to better understand retail staffers' perspectives, Ahrendts launched Share Your Ideas, an internal app in which they can propose improvements or lodge complaints. (Apple had a process before, but it was mostly ad hoc and not widely used.) Ahrendts says she reads every comment, and within 48 hours someone from her team responds.

One innovation to emerge from this program was the Genius Bar's new Concierge service. Customers no longer must wait in the store; they can receive a text when the appointment is 10 minutes from starting and another one when the Genius is actually ready. The original idea came from an associate who saw it in practice at a department of motor vehicles office in Dallas. Says Carol Monkowski, Apple's vice president of retail strategy: "I thought, 'If the DMV is outdoing us, I am frightened.' But the great news is they told us this, and we are now in phase 1 of it."

Ahrendts is also creating a career path for Apple's retail employees. Generally, only managers could be promoted to, say, run a bigger store. But last June, Ahrendts set an annual goal of moving 10% of employees around the world. Now Geniuses and regular associates can apply for transfers to, say, a store in China—or to headquarters. Says Stephanie Fehr, the company's vice president of retail talent: "It's just a huge developmental advantage for people here." (Another obvious way to improve morale would be to boost compensation. Store employees receive \$13 to \$18 per hour, according to Glassdoor, much better than most other retailers but not exactly the kind of paycheck that builds a global career.)

There are signs Ahrendts is having an impact. Apple is notoriously stingy when it comes to releasing internal data, but the company says retail employee satisfaction has risen since Ahrendts arrived, and the latest numbers are the highest they've ever been. Says Fehr: "She is a uniter."

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NO. 16 ANGELA AHRENDTS

BETTER COMMUNICATION WAS critical to Ahrendts's biggest task so far: the integration of Apple's retail and online sales groups. Even as its products allowed companies to streamline operations, Apple retained a bulky structure with separate leaders, staffs, and marketing plans. In the Jobs era, retail reported directly to him, while online reported to then-COO Cook. It was the classic Apple approach of creating small teams and having them focus on their own work. But it also created silos just as customers began to toggle seamlessly between physical and online shopping. "We always thought that having them separate, you would wind up with each one being better," says Cook. "But at some point down the line the customer changes." Ahrendts understood this at Burberry, and since more than 80% of the people who come into an Apple store have already visited its website, she says, it was silly not to operate the groups as one.

"IT FELT LIKE SHE'D BEEN HERE A DECADE THE FIRST DAY. I KNEW SHE WAS GOING TO BE OFF THE CHARTS, BUT **SHE'S EVEN MORE OFF THE CHARTS THAN I THOUGHT.** SHE CAME IN SO FAST, THERE WAS NO [LEARNING] CURVE."

TIM COOK

The internal merger was no easy feat. It required combining teams and cross-training Apple retail employees in online customer service, both in the stores and on the site itself. Associates were taught to use the site to help customers complete a sale if they preferred to buy that way, and online support teams needed to learn the way things work in the store. It also necessitated a different mind-set—one that put the customer, not the location, at the center.

The unified approach got its first real test with the April rollout of the Apple watch, the first product to be introduced since Ahrendts arrived. Initially, one could inspect the device in a store but order it only on Apple's website. That was partly because of component shortages, it now appears, but with in-store staff ready to help customers place orders online, Apple says it avoided lost sales.

As of mid-June, you could buy the watch in any Apple store—and, as of August, at Best Buy, which has reported early sales far beyond expectations. Cook says Apple was able to begin selling in other channels earlier than he had anticipated, in part owing to the improved feedback loop. "Because the stores are so quick at learning what works and what doesn't," Cook says, "we've gotten to that point quicker. At one point I thought it might be the beginning of 2016 before we were in that position, so I feel really good."

The launch also required that workers be trained to do things like put the watch on someone's wrist, help make fashion assessments, and, of course, not lose track of the product—something that doesn't happen with iPhones, which are connected to the table. These are all things that Ahrendts's Burberry experience informs.

Ahrendts and Cook say watch sales have surpassed expectations. IDC estimates 3.6 million have shipped so far. A few surprises: People are buying more of the larger watches—regardless of gender—and several bands at a time. But not everyone thinks the product is a must. (I tried one and concluded the last thing I want is another device that constantly runs out of power exactly when I need it.)

APPLE HAS ALWAYS wanted its stores to play a town-square role in communities, hence the classes and events that have always taken place there. But these days, more than ever, Cook talks about the transformation his company's stores can effect. "We started with a powerful view that the store was the place for service and support," he says, "that it was a place to explore what products could do. But staying where you are is never a good solution." As he puts it, "[Angela and I] have a common belief that the stores can play a key role in the communities that they serve."

What do Cook and Ahrendts have in mind? They won't talk specifics yet—indeed, the ideas still seem nascent—but it's clear they want to attack the diversity gap in technology. "We'd like to have more women and minorities coding," Cook says. "If we're able to provide teaching to large groups, particularly underrepresented groups, then we can move the dial in a major way." The store is a natural place to launch such experiments, he says. Needless to say, they could also benefit the company by expanding the quality and quantity of coders.

If these sorts of changes mean slightly less in profits per square foot in the short term, so be it. "There's not a retailer in the world that pays what we pay to service customers," says Ahrendts. "Trust me, I know. Nor do they pay associates to serve small and medium-size businesses in every community. We're the IT department for the local dry cleaners."

If successful, this community concept would create new and loyal customers and add to an already striking legacy. Not only have Apple's products changed the way people interact, but its sheer financial and market clout is breathtaking, analogous to, say, Standard Oil and GM at their peaks. It is, in fact, incumbent upon its leaders to use that clout well. That helps explain why Ahrendts is happily fielding questions about smells at 8 on a Wednesday morning in Boston. "This is not retail," she says, an evangelical quiver in her voice. "This is Apple."

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For companies with people in them™

The Google Effect

By **Patricia Sellers**

Claire Hughes Johnson
COO, Stripe

Francoise Casals Brougher
Global Business Lead, Square

Stacy Brown-Philpot
COO, TaskRabbit

Katie Stanton
VP Global Media, Twitter

Members of the latest generation of high-powered Google alumnae, photographed in San Francisco in August

New CFO Ruth Porat is the latest in a parade of accomplished women leaders at the Internet giant—many of whom now work elsewhere. What makes Google such a great training ground for women in tech, and why don't more of them stick around?

Photograph by **CODY PICKENS**

Natalie Fair
Head of Finance, Pinterest

Sukhinder Singh Cassidy
CEO, Joyus

April Underwood
Head of Platform, Slack

Amy Chang
CEO, Accompany

THE GOOGLE EFFECT

Google shocked the business world this past spring when it snagged Ruth Porat to be its new chief financial officer. But as the inside story reveals, the move counts as one of the Internet giant's easier moonshots.

The wooing began unwittingly early this year, when Google executive chairman Eric Schmidt visited Porat at Morgan Stanley, where she was CFO. Schmidt had worked with Porat a decade earlier, when she co-headed tech investment banking at the firm and played a key role in taking Google public. He didn't know her well, however, and his visit was purely casual. He didn't tell Porat that Google's current finance chief was considering leaving, or that Google would probably need a new CFO—a sophisticated, battle-tested veteran—to oversee a complex corporate restructuring.

He also had no idea that Porat was contemplating a career shift. She'd climbed the ranks at Morgan Stanley for almost three decades, building a reputation as a uniquely resilient Wall Street survivor. She'd helped resurrect the firm after the 2008 financial crisis and conquered her own breast cancer. But Porat, at 57, had begun looking for new challenges. She may have signaled as much when she told Schmidt that she so loved *How Google Works,* his 2014 bestseller, that she gave copies to her managers. ("Really? You did?!" Schmidt replied, intrigued to hear that she had "such a curiosity about Google.")

From there, a Wall Street–Silicon Valley nexus fostered the relationship. Porat phoned her friend John Mack, the former CEO of Morgan Stanley, for help scoping out opportunities in California, where she had grown up. Mack called his friend Bill Campbell, the Intuit chairman and Apple board member who is also a Google adviser. Campbell initially viewed Porat as a potential addition to Google's board. But in practically no time, she was meeting with Larry Page and Sergey Brin to talk about the CFO role. The Google co-founders quickly agreed that Porat was "our one and only choice," Schmidt recalls.

Google announced its prodigious hire in late March. In an affectionate (and until now, not publicly disclosed) letter to Morgan Stanley coworkers, Porat said the move was "back to the future to another place that is creative, energetic and fun." Arriving in May, she hit the Googleplex running. In July, reaction to the new CFO's first earnings call added more than $65 billion to Google's stock market value in one day. And Google's August restructuring left Porat with even greater duties: She is now finance chief of not only

LEFT TO RIGHT: CHIP SOMODEVILLA—GETTY IMAGES; BENJAMIN RASMUSSEN

26

RUTH PORAT

SVP & CHIEF FINANCIAL OFFICER / GOOGLE & ALPHABET

The Morgan Stanley veteran has become the force behind Google's restructuring.

19

SUSAN WOJCICKI

CEO, YOUTUBE (AND EMPLOYEE NO. 16) / GOOGLE

The brains behind Google's core ad business is now trying to tackle the tech gender gap.

Google but also its new holding company, Alphabet.

With its blue-chip recruit (Porat's pay package totals around $70 million), Google did more than boost its managerial firepower. It also put a stake in the ground—yes, Google does have powerful female execs! Google is one of six *Fortune* 500 companies (and only two in tech) with two spots on this year's *Fortune* Most Powerful Women list. Porat shares the distinction with Susan Wojcicki, CEO of Google's YouTube unit.

But the arrival of a high-level woman leader at Google also matters because it follows a string of high-profile losses—Sheryl Sandberg to Facebook in 2008, Marissa Mayer to Yahoo in 2012, Megan Smith to Washington, D.C., to become U.S. chief technology officer in 2014—along with other departures that inspired fretful commentary inside Google even when they didn't make headlines. Red-hot startups such as Slack, Square, Stripe, and Uber have poached senior women, and these aspiring superstars are now applying their Google-gotten skills to fuel growth at other companies.

The exodus reflects the culture of the tech industry, where innovation is often a by-product of restless, risk-ready executives leaving their employers to start something new. And while the dissemination of talent may distress current employees, ex-Googlers see it differently. Says Francoise Casals Brougher, who left her vice president job at Google two years ago to help Twitter co-founder Jack Dorsey build Square: "Google has always wanted to have a major impact on the world. Having us go to other companies is an extension of that."

To some observers, Google's high-powered alumnae parallel the "PayPal mafia"—the group of onetime PayPal executives, including Reid Hoffman and Elon Musk, who went on to create LinkedIn, Tesla Motors, and other multibillion-dollar companies. While the PayPal mafia was a mob of dons, though, the ex-Google gang is dominated by donnas: In fact, no other tech company comes close to Google in developing female leaders.

To find out what these women have in common—to isolate "the Google Effect"—*Fortune* interviewed more than 25 current and former Googlers, scattered across 20 companies, asking them what Google taught them and what impelled them to leave a company that perennially ranks as the world's best workplace. We learned that they gravitate to companies that are, well, Google-like: mission-driven, data-centric, and fast-growing, with empowered employees unconstrained by traditional ways of business building. Yes, gender does influence what they leave Google to do. And they require one more thing that they've grown accustomed to: a corporate culture where women have the opportunity to thrive as readily as men.

GOOGLE'S RANK-AND-FILE gender-diversity stats are not very good. With a 57,000-person workforce that is only 30% female, Google ranked below eBay, Facebook, HP, and other tech giants in a recent *Fortune* survey. Women comprise 18% of the company's technical talent and 22% of its leadership. The imbalance reflects Google's emphasis on hiring and promoting engineers—still a mostly male lot—and senior management

GOOGLE'S RISE AND THE WOMEN WHO ROSE WITH IT

Women have played crucial roles in Google's growth, but some high-profile departures have thinned their ranks.

acknowledges that the situation requires attention.

Still, to their credit, Google's founders strove to create a diverse workforce from the beginning. According to Wojcicki, Google employee No. 16, Brin and Page wanted diversity "baked in" from the outset; a gender-balanced environment would be "a more interesting place to work and a place where people would want to spend more time," she says.

Schmidt calls Wojcicki "the mother of Google"—and she has played an essential role in making it a place where women thrive. In 1998, Wojcicki rented her garage to the two Stanford grad students as they were hatching the company. She was a well-paid, satisfied marketing manager at Intel when Page and Brin asked her to join their fledgling business. "Larry and Sergey told me they would match every benefit that Intel had, and they'd provide child care," Wojcicki recalls.

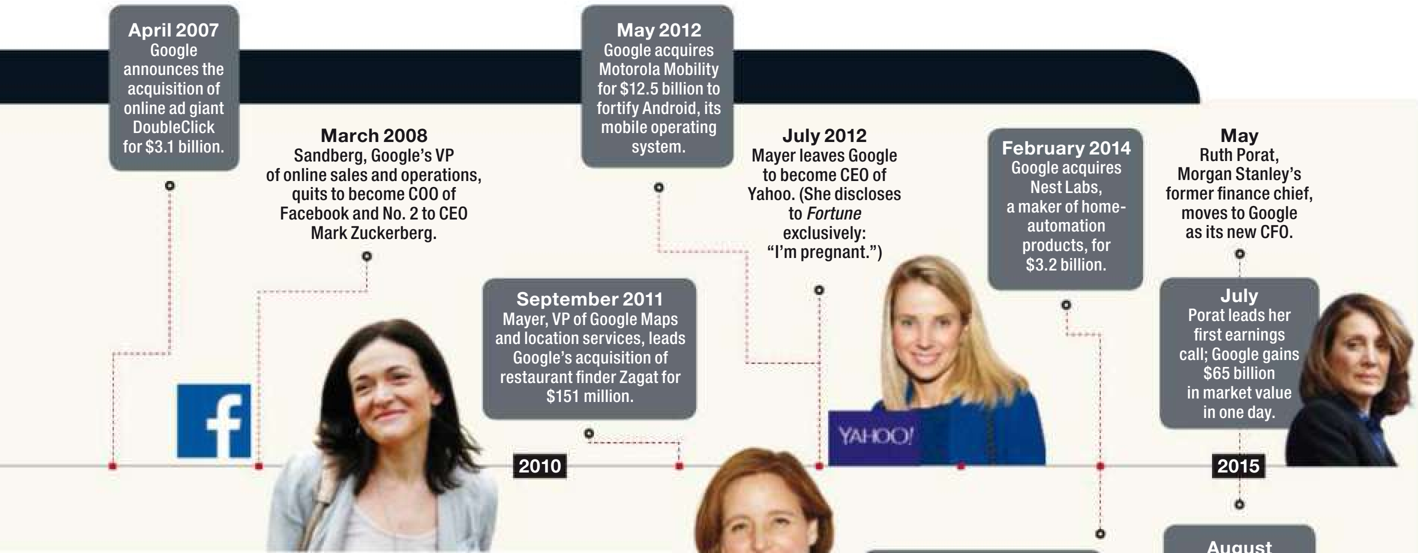
Wojcicki, now 47, was the third woman to join Google and the company's first pregnant hire. She has spent most of her 16 years there building its core ad business, which generates the bulk of Google's revenue, and building YouTube into a $4 billion business—all while having four more children. "Susan has it all, and she's so down to earth," says Katie Stanton, Twitter's VP of global media, who worked for her at Google. After delivering baby No. 5, a girl, last December, Wojcicki took 14 weeks' paid maternity leave and still has four weeks left to use, thanks largely to her own push for generous parental benefits.

As a keeper of Google's culture, Wojcicki has felt the onus to improve its diversity. One place she can make a difference is product management. Product managers are the mini-CEOs who bridge the technical and business worlds to steer product development from conception to launch; Wojcicki has final say on those hires across the entire company.

Meanwhile, she frets about the bigger challenge of training more female engineers who could someday apply for Google jobs. Though not a techie herself (she studied literature and history at Harvard before earning a master's in economics and an MBA), Wojcicki can code. But she is dismayed that only 14% of computer-science grads are women, and by what she saw when her daughter went to computer camp last year: It was practically all boys. At Wojcicki's strong urging, ID Tech Camps created Alexa Café, a chain of all-girl coding camps. This summer, Alexa Cafés sprang up in 10 U.S. cities. Says Wojcicki, whose teenage daughter attended one in Palo Alto: "The only way to correct diversity in tech is to make computer-science classes mandatory for all kids."

WHILE THE MOTHER of Google has never considered leaving ("What would I get out of that?" Wojcicki says), most other female stars at the company eventually exit. Why? "Career aspirations," speculates Schmidt, speaking from experience. Schmidt remembers when Sandberg told him, in 2008, that she was quitting Google, where she was vice president of global online sales and operations, to become No. 2 to 23-year-old Mark Zuckerberg. "I said to her, 'Why would you go to Facebook?'" Schmidt recalls. But he realizes now, "She hit the limit of what she could do at Google." A company

LEFT TO RIGHT: KIMBERLY WHITE—GETTY IMAGES FOR VANITY FAIR; DUFFY-MARIE ARNOULT/WIREIMAGE—GETTY IMAGES; KIMBERLY WHITE/REUTERS—CORBIS; ARAYA DIAZ/WIREIMAGE—GETTY IMAGES; BRENT N. CLARKE/FILMMAGIC—GETTY IMAGES; MIKE PONT—GETTY IMAGES; CHIP SOMODEVILLA—GETTY IMAGES



can be taken from small to big only once: Moving to Facebook enabled Sandberg, now 46, to do it twice.

Marissa Mayer, Google's employee No. 20 and its first female engineer, quit her vice president job there three years ago to become CEO of Yahoo. "If Marissa were at Google today, she would likely be in charge of one of the Alphabet companies," Schmidt says, but he acknowledges that someone as ambitious as Mayer would want a bigger role. (And Yahoo, a company with $4.6 billion in revenue, arguably faces more daunting growth challenges than either Google or Alphabet does.)

The departure of a Sandberg or a Mayer matters because powerful women executives at Google attract other women and inspire some to stay. Jen Fitzpatrick says that in 1999, when she joined out of Stanford, she "never imagined working at Google beyond the summer." Sixteen years later, at 38, she's vice president of engineering and product management for Google Maps and local search products. One of her mentors was Mayer, and the duo devised a way to improve diversity in hiring: they insisted that at least one woman executive interview every job candidate. "As important as it was to bring in strong women," Mayer recalls, "we also wanted to recruit male programmers who would be great colleagues to women."

Many Google alums view their alma mater as an extraordinary training ground but not necessarily the place to spend an entire career. In May, Rachel Whetstone, Google's senior vice president of communications and policy, left to take an equivalent position at Uber, where global PR and regulatory challenges require a virtuoso. Whetstone, a prized adviser to Schmidt and the Google co-founders, says that at age 47, after spending a decade at Google, she decided she needed "a little kick up the backside."

Then there's Claire Hughes Johnson. She joined Google in 2004, when the company had only about 2,500 employees, and rose to oversee global online sales—inheriting much of Sandberg's responsibility when Sandberg left. "What amazed me is that I stayed 10 years," says Johnson, 43. She stayed because Google, with its fast decision-making and mission-driven atmosphere, "operated like a giant startup for longer than I expected."

But Johnson eventually felt her learning curve flatten. In a role many techies would kill for—vice president of Google X, in charge of self-driving cars—she was overseeing a business with no customers and no revenue. Then along came Stripe. Founded in 2010, Stripe gives Internet-based businesses a platform for accepting money from anyone, anywhere. The business isn't sexy, but the opportunity to help entrepreneurs globally convinced her to join last October. Now she is chief operating officer at a startup with nearly 300 employees and $300 million in funding to date. (She has equity in Stripe, which private investors value at $5 billion.) Johnson aspires to play the same role at Stripe as Wojcicki has played at Google, shaping corporate culture from the ground up: "I'd like to figure out how we can make it such that diversity is not a project, but just the way Stripe is."

In a way, Google is a victim of its own success: Few Internet businesses have made the transition

THE GOOGLE EFFECT

from startup to giant—and any new company hoping to duplicate that arc would love to snare a Google veteran. It was at Google, where Sandberg's sales-and-operations workforce grew from four to 4,000 employees in five years, that she learned the business-building skills that attracted Zuckerberg's interest. "Think big. Hire big. Plan big" sums up Sandberg's rules for scaling an organization. "Fast growth means you are always behind," Sandberg tells *Fortune*. "I always tried to help teams see what they would need before they needed it."

That foresight is all the more important at a company that's so full of "smart creatives" (as Schmidt labels Google's employees) that losing some superstars is inevitable. Stacy Brown-Philpot, who left Google in 2012 to be COO of TaskRabbit, recalls Sandberg pushing her to line up successors for herself in advance of promotions. One potential successor, Natalie Fair, left—and she's now head of finance at Pinterest. A couple of years later, on the very day Brown-Philpot arrived in Hyderabad to head Google's sales and operations in India, she confounded colleagues by asking for a list of 15 candidates who might eventually replace her. "They said, 'You just got here!'" she recalls. "Yes, and I remembered Sheryl's advice." (In August, Brown-Philpot, 39, was named to the board of HP Inc., one of the two companies being launched from HP's impending split.)

"No team has ever had too many strong performers," Sandberg says. Lining up successors is also about "building your bench," a crucial leadership skill.

EVEN FOR THE BRIGHTEST Googlers, striking out on their own can be frightening. Amy Chang, who spent eight years at the company and built a 300-person Google Analytics team, left in 2012 to "create something from scratch," as she says. Chang started Accompany, which makes a "relationship management" app to help organize your contacts, with two co-founders: her husband, Ryan McDonough, a finance expert, and Matthias Ruhl, a former senior research scientist at Google. Chang is Accompany's CEO, overseeing 30 employees and $20.6 million in funding. She says she feels as if she's flying without a parachute: "I wake up at 2 o'clock in the morning saying 'Ohmigod, what if I fail?' That didn't happen at Google."

Here's why: A company that owns the world's largest digital-distribution platform can make smart employees think they're smarter than they are. Google's vast user base turns successes into blockbusters; the monetary fruits of the hits cushion the blows from the misfires. "It's a wonderful luxury," says Chang. "Google teaches you so much, but it also buffers and protects you." Sukhinder Singh Cassidy, former president of Google's Asia-Pacific and Latin American operations, agrees. The challenge for ex-Google entrepreneurs, she says, is "to create a flywheel that can succeed without that juice." Cassidy, 45, spent six years at Google until creeping bureaucracy led her to quit in 2009. She headed social-shopping site Polyvore briefly and then started Joyus, a video-shopping service that she hopes will be the next HSN or QVC. She has 60 employees—two-thirds of them female—and has raised more than $40 million.

Says Jess Lee, 32, who left Google in 2008 to join Polyvore and four years later ascended to CEO: "Google is a great training ground for how to build an amazing culture and an amazing product. But Google is not that good at teaching you how to build a business." Lee says Google's focus on user experience—build a great product, and revenue will follow—relieves managers of profit-and-loss responsibility, which they'll need to thrive elsewhere. (Schmidt says Google's approach is designed to keep managers from prioritizing their unit's P&L over the company's.) At Polyvore, Lee shares the P&L—the data and the responsibility—with all 130 of her employees. (Women comprise half of Polyvore's workforce and two-thirds of its executive team.) At any moment, anyone can check daily revenue and key sales metrics by logging on to the group-messaging app Slack. (Another former Googler, April Underwood, is head of platform at Slack.) Sharing Polyvore's financials "forces everyone to understand that the business matters," says Lee, verbally underscoring "business."

In August, Yahoo agreed to buy Polyvore for an estimated $200 million. The acquisition

represents a homecoming of sorts: Lee is a star graduate of the APM—associate product manager—program that Marissa Mayer created at Google to train entry-level techies to move into management. Lee says she learned from Mayer what a CEO's true job is: "to support and empower employees." This fall, Lee and her Polyvore staff are moving to Yahoo's Sunnyvale, Calif., campus, where elements of the Google culture—free food, quarterly performance reviews, Friday all-hands meetings hosted by the CEO, and, yes, a version of the APM program—are part of the Mayer regime.

IN ONE SENSE, Porat's ties to the women of Google predate Google. Her father, a physicist and engineer who spent 26 years at Stanford's SLAC National Accelerator Laboratory, worked there with Stanley Wojcicki—father of Susan. And when Ruth was 6 years old (before Susan was born), she swam in the pool at the Wojcickis' home in Palo Alto.

Her own ties to the tech sector run just as deep. Porat serves on the board of trustees of her alma mater, Stanford—where Google lead director John Hennessy is president. So far at Google, she is both student and teacher. Schmidt and the Google cofounders had not figured out the details of their new corporate structure until Porat arrived; since then, "she's been all Alphabet structuring all the time," he says. Porat directly oversees some 6,000 Google employees—three times as many as at Morgan Stanley—because the new job includes people operations and real estate, in addition to finance.

John Mack, Porat's former boss at Morgan Stanley, predicts that she'll shine because "she understands complexity and she knows how to problem solve." During the July earnings call, Porat hinted at where she's likely to steer Google—and Alphabet—when she called for "expense discipline" and "proper resource allocation."

CODY PICKENS

JESS LEE — CEO POLYVORE

"GOOGLE IS A GREAT TRAINING GROUND FOR HOW TO BUILD AN AMAZING CULTURE AND AN AMAZING PRODUCT. **BUT GOOGLE IS NOT THAT GOOD AT TEACHING YOU HOW TO BUILD A BUSINESS."**

While Porat's hiring is a sign of Google's maturity, it also shows the company's prowess at attracting smart people whose careers are perpetual growth engines. Porat's late mother, a practicing psychologist and an accomplished author, shaped her approach to work: As Porat wrote in her Morgan Stanley farewell letter, "My mother told me always to find subjects that inspired me, view all paths as open, never let anyone say I couldn't do something." Her latest move gives her many new paths to explore—and makes her a powerful role model for aspiring leaders in tech.

10

PHEBE NOVAKOVIC

CHAIRMAN AND CEO
GENERAL DYNAMICS

MOST POWERFUL WOMEN 2015

The Spy in the Corner Office

The CEO of $31 billion defense behemoth General Dynamics is a former CIA operative. But if you think Phebe Novakovic is about to spill her secrets, you're dead wrong.

By **Carla Anne Robbins**

AFTER PHEBE NOVAKOVIC married Michael Vickers in 1985, the alumnae magazine at her alma mater, Smith College, announced the nuptials. "Mike and Phebe met in the foreign service," the entry cheerfully reported.

That is what is known in the espionage trade as a cover story. In fact, the two met while working for the Central Intelligence Agency. And Vickers wasn't just any CIA operative. He was a former Green Beret who became the chief strategist for the agency's secret program that armed the mujahadeen as they fought to drive the Soviet Union's army out of Afghanistan.

Novakovic's role in the agency is more of a "known unknown." (She and Vickers have both remarried.) Her company biography confirms she was a CIA operations officer. When interviewed, nearly all of her colleagues and fellow board members instantly volunteer, "You know she was in the CIA?" But like any good operative, Novakovic doesn't so much as whisper a word about her activities. Former colleagues think she spent time overseas, probably under some official government cover, gathering information about military capabilities. "One thing I do know," says one former government official, "is she wasn't just an analyst sitting in an office back in D.C."

Illustration by **PIOTR LESNIAK**

A submarine being painted at General Dynamics' Bath Iron Works in Maine. Before becoming CEO, Novakovic headed the company's marine division, which builds ships and subs.

JESSICA HILL—AP

At the time, even her closest friends had no clue Novakovic was in the CIA. "I thought she was somewhere in Washington," says Patricia Anne Lind, who is the godmother of one of Novakovic's three daughters and co-general counsel of Nine West Holdings. "Clearly I hadn't known what my best friend was doing."

Phebe Novakovic long ago left the shadows—but three decades later she still shuns the spotlight. She is allergic to the press (it took her spokesperson a scant few hours to decline an interview for this article), noticeably scarce on the Washington think tank circuit, and limits her contact with most Wall Street analysts to quarterly calls and the occasional investor conference.

Despite that—or perhaps because of it—Novakovic seems to be thriving as CEO of the $31 billion (revenues) defense contractor General Dynamics, which is best known for building the M1 Abrams tank, nuclear submarines, and more recently, Gulfstream jets. Nearly three years into her tenure as chief executive, she wins kudos on Wall Street for restoring the company's profits after a traumatic loss under her predecessor. General Dynamics' stock has rocketed past its competitors' since the beginning of last year.

Novakovic, 57, has succeeded with a back-to-basics approach she describes as "doing what we know how to do." She has slashed spending, expanded profit margins, and returned cash to shareholders. Last year's earnings, $2.5 billion, were just shy of the company's record ($2.6 billion, in 2010).

But General Dynamics' revenues have been flat, and at some point, analysts say, Novakovic will have to chart a strategy that delivers growth—a tricky endeavor in an era in which U.S. defense spending is likely to stagnate. Says Linda Hudson, a former U.S.

CEO of defense contractor BAE Systems who once worked with Novakovic: “Phebe has hit it out of the park streamlining the organization. The stock price is phenomenal.” But she thinks defense companies, including General Dynamics, need to bulk up via mergers. “I don’t think it’s going to be a growth market,” Hudson says, “and you need bigger players in order to maintain capacity and weather the ups and downs of defense-spending cycles.” That raises a question: Can a disciplined operator and cost cutter excel at a new and different mission?

TRUE TO HER CIA PAST, Novakovic is notoriously elusive, especially when it comes to her personal life. Some years ago, when she was working at General Dynamics but hadn’t yet ascended to the top role, a former company executive recalls, “someone suggested we run an idea past David Morrison.” Morrison was then a top staffer on the House defense appropriations subcommittee, a powerful figure in defense contracting. “Phebe said she would talk to him at dinner,” the former executive recalls. “When I asked if she was seeing him that night, she said, ‘I have dinner with him most nights.’ I knew both of them, but it was only then that I figured out that they were married [to each other].” (Morrison later became Boeing’s chief lobbyist. He has since retired and is studying divinity at Princeton Theological Seminary.)

That’s not to suggest that Novakovic is lacking in wit or charm. In a recent earnings call she came across as confident and direct, spare in her use of CEO jargon. (Novakovic also forgoes another CEO affectation: Rather than travel with a royal-size retinue, she tends to bring no more than two or three executives to Pentagon meetings.) On the earnings call she bantered with analysts but showed a military bluntness in refusing to be budged from her talking points. She dismissed suggestions of a possible weakening in the business-jet market as “rumor intelligence, or RUMINT.” She casually employed words like “parable,” “ephemeral,” and “perturbations.” When an analyst teased her about her use of “axiomatic” and “purported weakness,” she responded, “Yes, well, it helps to have been a liberal arts major. I do know the English language.”

Novakovic’s directness works to her advantage much of the time. “The reason people respond to her,” says Mike Petters, CEO of Huntington Ingalls, which teams with GD to build attack submarines, “is she absolutely tells you what her expectations are, and when you deliver she takes care of you, and when you don’t she lets you know.” Novakovic, he says, has a “high standard of performance.”

“She is not terribly emotional about any particular aspect of the business,” Petters adds. “She doesn’t put a lot of energy into a lot of things she doesn’t think [are] necessary to running the business.”

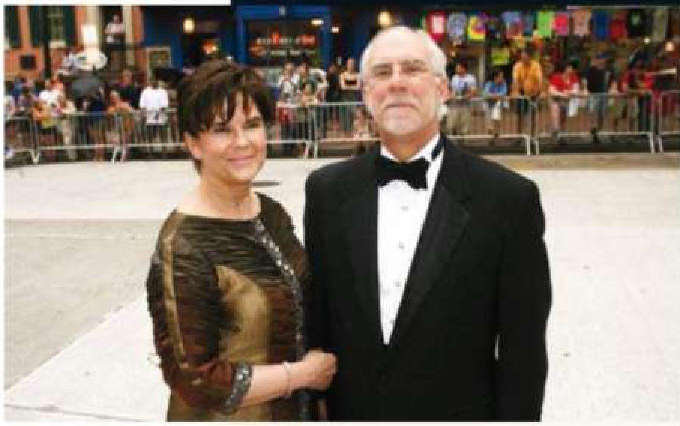
IN RETROSPECT, NOVAKOVIC seems as if she was always destined for the defense world. Her father, a Serbian immigrant, served in military intelligence as a lieutenant colonel in the U.S. Air Force. Novakovic graduated from an Episcopal boarding school in San Antonio and moved on to Smith College in Northampton, Mass., where she majored in government and German. During those years in the mid- to late ’70s—the post–Vietnam War period when the military and the CIA were scorned on many campuses—Novakovic stood out. “Phebe was always very patriotic,” her close friend and classmate Lind says. “She had a more conservative and Republican upbringing” than many peers.

LINDA HUDSON — EX-CEO, U.S. BAE SYSTEMS

“PHEBE HAS HIT IT OUT OF THE PARK STREAMLINING THE ORGANIZATION. [BUT] **I DON’T THINK IT’S GOING TO BE A GROWTH MARKET,** AND YOU NEED BIGGER PLAYERS IN ORDER TO MAINTAIN CAPACITY AND WEATHER THE UPS AND DOWNS OF DEFENSE-SPENDING CYCLES.”

Novakovic went straight into defense after college, analyzing weapons systems for a small Beltway contractor. In 1983 she joined the CIA, where she met Vickers (who taught her to skydive). In 1986 they left for Wharton, where both earned MBAs. Vickers, who until this past spring was undersecretary of defense for intelligence, is only slightly more media friendly than his ex, which helps explain why the names of two such prominent defense players

BRENDAN SMIALOWSKI—BLOOMBERG VIA GETTY IMAGES



Novakovic and her husband, David Morrison—who retired as Boeing's chief lobbyist and is now studying theology—at a 2013 event

are so rarely linked in public.

After grad school Novakovic followed a well-trod path through government (purchaser of defense products and services) to private industry (seller of those products and services). In 1992 she joined the White House Office of Management and Budget and rose quickly to become a top official overseeing the defense and intelligence budgets. Five years later she crossed the Potomac to work as a special assistant to William Cohen, then Defense secretary, and his deputy John Hamre. "She had an enormous amount of authority in the contracting world," says Nicholas Chabraja, who was then General Dynamics' CEO and became a mentor to Novakovic.

The company hired her in 2001, and Novakovic meshed well with its no-nonsense culture. "Boeing makes planes; Raytheon makes missiles; General Dynamics makes money," says Loren Thompson, chief operating officer of the Lexington Institute and a consultant to GD and other defense companies. He says it has a tougher environment than its rivals: "At General Dynamics your contribution is measured on a quarterly basis." (Thompson adds that "under Phebe, the consequences for failing to perform are even more immediate than they were in the past.")

It was clear early on that Chabraja was grooming her for a top job. Still, when he retired in 2009, the CEO position went to Jay Johnson, a board member and former Chief of Naval Operations. Novakovic was named the head of marine systems, one of the company's four divisions, which builds submarines and ships.

AS IT TURNED OUT, NOVAKOVIC was lucky. Chabraja was a tough act to follow. And after a decade of lavish Pentagon spending, the "Army business in particular went into a precipitous decline" with the drawdown in Iraq, notes Myles Walton, an analyst at Deutsche Bank. In Walton's view, Johnson may have had "the hardest job in defense."

In an effort to expand into what Johnson called "faster" markets, GD spent nearly $1 billion in 2011 to acquire Vangent, a health care IT provider poised to cash in on Obamacare. The following year, GD spent an undisclosed amount to acquire a civilian cybersecurity company and a maker of wireless network equipment.

In June 2012 General Dynamics announced that Johnson would retire by the end of the year and Novakovic would succeed him. The explanation for that early departure became clear in January 2013, just weeks after Novakovic took over as CEO. The company reported a $1.2 billion drop in 2012 sales in its information systems and technology group and an $800 million fall in sales in its combat systems group. Even more surprising was the announcement that it would take a $2 billion write-down on a long series of acquisitions in its info systems businesses. GD's $332 million loss for 2012 was the company's first year in the red in two decades.

In her first earnings call, Novakovic made no effort to hide her displeasure with the state of the business—or her predecessor. She blamed the write-down on a "somewhat broken" acquisitions process. "Had I been consulted," she said, some of the deals "wouldn't have been done." She said she would not "venture back into" the acquisitions market "until we have re-established discipline," and she vowed instead to plow GD's cash into dividends and stock buybacks. She has repeated that promise, and kept to it, ever since.

Novakovic quickly began "retiring" corporate vice presidents. She consolidated operations and reduced GD's already lean headquarters staff from 190 to around 140 people today. (The company employs 96,000 overall.) Moves like those have improved cash flow margins from 11.8% in 2012 to 14.6% today, according to S&P Capital IQ.

Novakovic also benefited from some good timing. The economy has rebounded, bolstering demand for Gulfstream jets. And a deal at the end of 2013 blunted the automatic cuts caused by the budget sequester. (It's not certain Congress and the White House can negotiate another reprieve this year.)

STEPHANIE GREEN—BLOOMBERG VIA GETTY IMAGES

Meanwhile the company scored some lucrative new defense projects, including a $10 billion to $13 billion contract to sell light armored vehicles to Saudi Arabia. GD's marine division and Huntington Ingalls were jointly awarded a $17.6 billion, 10-year contract to build 10 Virginia-class submarines for the U.S. Navy.

Novakovic is certainly disciplined, but at times she can appear risk-averse—the result perhaps of watching Johnson's tenure come to a quick end. GD has pulled out of the bidding for several contracts, including the $30 billion to $40 billion U.S. Air Force T-X trainer program, which Novakovic and her team decided were either out of their core business, too risky, or unlikely to provide high returns.

By contrast, when an opportunity feels as if it's in the company's wheelhouse, Novakovic pushes hard for a big win. She is now positioning GD to take the majority of what could be a $100 billion program to build 12 Ohio-class nuclear-missile submarines. Novakovic told an investor conference in June that she had no interest in repeating the teaming arrangement with Huntington Ingalls that was demanded by Congress for the Virginia-class subs. "That won't happen," she said, adding, "We don't like it, and second, it's too much risk."

In this case, Novakovic's bluntness may not serve her well. The Ohio-class program is so expensive that it could devour the Navy's acquisition budget unless Congress is willing to ante up more cash. Spreading the wealth and the jobs is the best way to guarantee a program's success on Capitol Hill, and some Pentagon officials worry she could alienate key decision-makers. Still, there hasn't been much reaction so far—another possible salutary result of her low profile. When asked about Novakovic's comment, one congressional aide whose boss is a big booster of Huntington Ingalls says, "I hadn't heard it. Frankly, I had to look up [Novakovic's name] when I got your email."

THE OBVIOUS QUESTION IS, Where will General Dynamics find new growth? Such queries have grown louder since July, when Lockheed Martin announced plans to acquire Sikorsky Aircraft, maker of the Black Hawk helicopter, for $9 billion. (Lockheed is also spinning off $6 billion in infotech assets, the same line of business that caused trouble for GD.) The purchase, expected to win regulatory approval, will boost and diversify revenues for Lockheed and open additional foreign markets.

Novakovic has been clear about what she doesn't want to do—pursue new acquisitions or stretch GD outside its comfort zone—but much vaguer about a long-range vision and how she plans to meet the challenges of a Pentagon budget likely to remain flat for years to come, an uncertain strategic environment—will the U.S. keep fighting in the Middle East or finally pivot to Asia?—and technology and manufacturing that is changing far faster than the usual decades-long defense-contracting cycles.

"Phebe has rebuilt credibility with shareholders," says Byron Callan, an analyst at Capital Alpha Partners, which provides research for institutional investors. "But you have to ask, particularly on the defense side, how much more runway she has raising margins and buying stock back." Callan argues that "in another year or two she is going to have to articulate a vision of where she is taking the company."

General Dynamics directors interviewed for this article say that, given her results and Wall Street's enthusiasm, there is no reason for Novakovic to change what she is doing. Told that some investors complain that she is inaccessible, former CEO Chabraja, who remains a major player on the board, dismissed it as whining. "If it is true she is ignoring investors, she should keep on doing it," he says. "She has more than doubled the stock." Chabraja doesn't believe Novakovic "is averse in principle" to acquisitions. "Right now we are in a period where defense and aerospace have organic growth," he says, so there is no need for "prattling on about acquisitions."

Of course Chabraja is best remembered for an acquisition: He bought Gulfstream for $5 billion in 1999. Wall Street was skeptical the business was too far afield. But today Gulfstream is the company's brightest light: Last year the commercial aerospace division produced 28% of GD's revenue and 41% of its profits. There's a three-year wait for a G650, which goes for $64.5 million and can fly 8,000 miles before refueling.

Given all of the uncertainties of the defense market, Novakovic may have to move herself and General Dynamics beyond their comfort zone. Will she find her own golden acquisition in the civilian world to help drive revenues? Or should GD grow by doubling down on next-generation technology like undersea drones or microwave or laser weapons? Perhaps Novakovic already has a plan. So far, though, she's not telling.

RESEARCH ASSOCIATE: *Marty Jones*

14

HELENA FOULKES

PRESIDENT OF CVS/PHARMACY
CVS HEALTH

She Thanks You for Not Smoking

CVS retail czar Helena Foulkes is helping transform the drugstore chain into a health care giant. Giving up tobacco sales was merely the first step.

By **Phil Wahba**

Photographs by **JOE PUGLIESE**

AS THE CROW FLIES, it's roughly 3,700 miles from the North Pole to the headquarters of CVS Health in Woonsocket, R.I., just outside Providence. But on this sweltering summer day inside a plain-looking three-story building on the edge of the CVS corporate campus, Helena Foulkes is having Christmas in July.

The president of CVS/pharmacy, the company's flagship drugstore chain, is standing in the middle of an aisle packed with holiday paraphernalia—Santa hats, $25 wreaths, plastic *Peanuts*-branded Christmas trees, boxes of Ferrero Rocher chocolates wrapped in gold foil. There aren't any shoppers around because she's not in a real CVS but rather a 10,000-square-foot mock-up store, a living lab of sorts where the retailer tests new product layouts and conducts focus groups with customers.

Today the "store" is set up to show the planned displays for the prime fall shopping season, and Foulkes is walking aisle by aisle with her top merchants to get a sneak peek. "This is a really great way, without PowerPoint, to stand in front of product and look and see and feel," she says.

Suddenly Foulkes spots something that catches

NO. 14 HELENA FOULKES

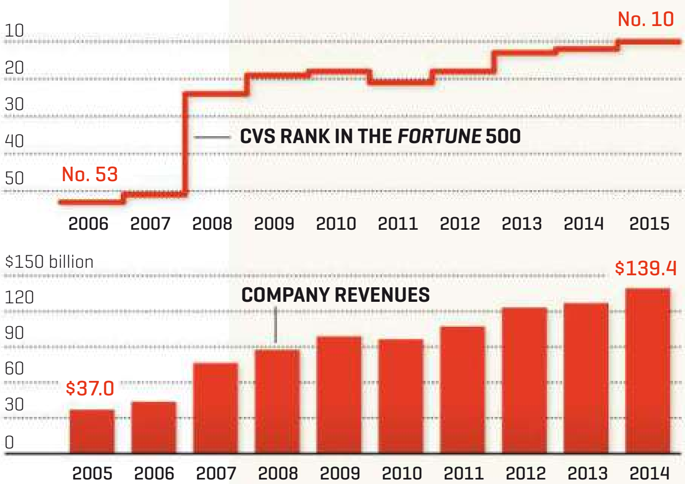
her interest: Christmas stockings that each have one big monogrammed letter on them. "So, what, you have to have every letter in the alphabet?" she asks the buyer in charge of holiday decorations, an executive named Mike McEnany. He explains that, no, in fact there are studies on which monogram letters are the bestsellers, and they vary the mix depending on the store location. "But the key letters are 'S,' 'M,' 'J,' and 'C,'" says McEnany. Then adds, "And 'H.'"

"Of course there's 'H'!" says Foulkes triumphantly as she and the half-dozen execs erupt in laughter.

Between moments of levity, Foulkes is using the tour to carefully grade the aggressive makeover that she and her team are in the process of introducing at CVS's vast fleet of 7,900 stores. She's delighted to see that her merchants plan to give more prime space to beauty brands promising health benefits, such as Neutrogena and L'Oréal. And at about 500 stores, CVS has begun stocking snacks marketed as "healthy" (such as Kind bars, which have been singled out by the FDA as not living up to the billing) near the cash registers while relegating traditional junk food (like Oreo cookies) to the back.

A DECADE OF HEALTHY GROWTH

This year CVS cracked the top 10 of the *Fortune* 500—based on prior year's revenue—for the first time. The 2006 acquisition of Caremark has driven big sales gains.



The changes are aimed at burnishing CVS's image as a health-oriented company. Over the past decade, CVS has made a series of multibillion-dollar deals to grab a bigger piece of the growing health care industry pie. In addition to the retail drugstore business, CVS is now the country's biggest specialty pharmacy; it operates the second largest mail-order-drug service; and, in Caremark, it has the second-biggest pharmacy benefits manager, or PBM, processing prescription-drug programs for big companies and health insurers.

Add it all up, and CVS is now the largest health care–related company in the U.S. The company ranked No. 10 on the *Fortune* 500 this year, with $139.4 billion in revenue in 2014—enough to put it ahead of massive drug distributor McKesson ($138 billion) and insurer UnitedHealth Group ($130.5 billion). To emphasize his company's evolution, in 2014 CEO Larry Merlo changed the company's name from CVS Caremark to CVS Health.

A landmark moment in the company's transformation came early last year when Merlo announced that CVS would cease selling tobacco products by Oct. 1, 2014—a deadline it met nearly a month early. The decision meant sacrificing about $2 billion in sales. Led by Merlo, CVS's executive team decided that continuing to sell cigarettes had become untenable for a company that was simultaneously trying to sell itself as a health care giant. CVS reaped an immediate public relations windfall from the tobacco exit, earning approving tweets from the White House, former New York mayor Michael Bloomberg, and Bill Gates, among others.

The media attention generated by the tobacco exit also cast a spotlight on Foulkes, 51, who has long been a rising star inside CVS. A cancer survivor and marathoner—as well as a bit of a daredevil who once ran with the bulls in Pamplona—Foulkes has been the architect of customer-engagement programs over the years that have been key to CVS's growth. Rhode Island Gov. Gina Raimondo, a good friend, calls Foulkes a "get-things-done person." (For more on Raimondo, see "Tiny State, Big Fighter" in this issue.)

At the time of the tobacco announcement, Foulkes had just made the switch from chief of strategy and government affairs (where she describes herself as "a catalyst" for making the

CHART SOURCE: COMPANY REPORTS

Signage where cigarettes used to be at a CVS store in New York City on Sept. 2, 2014. The drugstore chain eliminated tobacco products last year—sacrificing $2 billion in sales—after deciding that smoking clashed with its identity as a health care company. Then it turned the move into a marketing campaign.

ANDREW RENNEISEN—THE NEW YORK TIMES/REDUX

decision to drop tobacco products "but not the only one") to running retail, which meant that the lost cigarette sales would come out of her P&L. "I remember somebody saying to me, 'So now do you think it's a good idea?'" she says, laughing. Foulkes did, and she embraced the role of being a spokesperson for the move. (And it was personal as well as business for Foulkes: Her mom died of lung cancer in 2009.) In her office, Foulkes has a framed picture of herself with First Lady Michelle Obama from an event honoring CVS's tobacco exit.

A year after the cigarettes came off shelves, there are signs the move is paying off for the company overall. Front-of-store comparable sales were down 7.8% in the second quarter of 2015, in large part because of the lost tobacco revenue. However, revenue from pharmacy benefit services rose 11.9%, and the company lined up $11 billion worth of new contracts in the PBM business—gains that CVS believes are a by-product of the company's improved reputation.

The overhaul that Foulkes is leading in the retail business is about extending those gains. CVS/pharmacy last year had $68 billion in sales, which on its own would make it the seventh-largest U.S. retailer, just behind Target. Its footprint is about to get even bigger. In June, CVS announced that it would spend $1.9 billion to acquire Target's pharmacy and clinic business. When the deal closes, CVS will have about 9,600 pharmacy locations—each one an outlet for reaching consumers with the message that CVS has their health in mind.

That is crucial given the new era of disruption we're entering in the health care industry. Spending on medicine in the U.S. will increase by some 30% between 2014 and 2018, according to IMS Health, thanks to an aging population and the emergence of specialty pharmaceuticals. At the same time, employers—including CVS—are raising deductibles

NO. 14 HELENA FOULKES

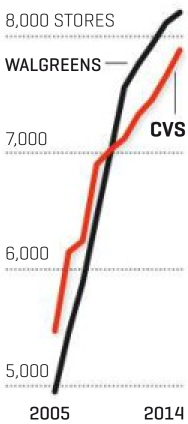
RHODE ISLAND GOV. GINA RAIMONDO, A CLOSE FRIEND, SAYS SHE DEFINITELY SEES FOULKES AS CEO MATERIAL DOWN THE LINE. "SHE'S A LEADER. SHE CAN MOTIVATE PEOPLE, AND THAT'S WHAT EVERY CEO NEEDS TO DO."

on health plans. That means consumers will be paying a much bigger share of their own health care costs and shopping around more. The competition for customers will be that much fiercer. In a subtle way, pushing Kind bars instead of Oreos is part of that battle for consumer loyalty.

Foulkes calls this trend "the retailization" of health care and says she welcomes the challenge of using CVS stores not only to draw in casual shoppers but also to drive business back to the pharmacy benefits side of the business. "The health care system is going to undergo a lot of change," she says. "Change is good for companies looking for opportunities."

THE BEHEMOTH THAT is CVS Health today is hardly recognizable from the regional drugstore chain Foulkes joined in 1992, soon after getting her MBA from Harvard Business School. At the time, CVS had about 1,400 stores in the Northeast, generating annual sales of almost $4 billion. All the large chains across the country—from Walgreens to Eckerd to Rite Aid—operated largely from the same playbook: fill prescriptions in the pharmacy in back, and in the front, sell everything from diapers to shampoo to soda.

A wave of consolidation began to sweep across the drugstore landscape in the late 1990s. Tom Ryan, a onetime pharmacist who served as CEO at CVS from 1998 to 2011, was among the most aggressive players in the industrywide M&A spree, snatching up rivals such as Longs Drugs and Sav-On. Depending on the most recent deal, CVS and Walgreens took turns as the industry king. Today Walgreens has some 8,200 locations and third-place Rite Aid has about 4,500. Walgreens has said it plans to close around 200 stores, while CVS is acquiring 1,700 Target pharmacies.



CVS and rival Walgreens have engaged in a long-running expansion battle. But Walgreens recently said it would close 200 stores, while CVS agreed to acquire 1,700 pharmacies from Target.

Ryan recognized major potential in Foulkes and gave her a career-changing assignment—before even she was convinced that she was ready. In 1997, when Ryan was COO, he plucked Foulkes out of a job in merchandising and asked her to start a loyalty program for CVS from scratch. Ryan gave her precious little guidance on how to do it, but she plunged in and figured it out on the fly.

The program she created, ExtraCare, has been a major success since it rolled out nationally in 2001. ExtraCare now has 70 million active members (defined as people who have used it in the past six months). And it has been an essential tool in helping CVS personalize offers to customers while also providing a trove of data to CVS about their shopping habits. (Walgreens didn't launch a customer loyalty program until 2012, but its Balance Rewards has grown rapidly and now has 86 million members.)

In 2006, Ryan completely transformed CVS—and altered the dynamics of the drugstore industry—when he orchestrated a $22 billion deal to acquire the pharmacy benefits manager Caremark Rx, nearly doubling the size of his company by revenue. Suddenly CVS was courting health-plan administrators as well as individual customers.

Ryan again turned to Foulkes, then running marketing, with a key assignment. He asked her to come up with products that would show the value of the CVS/Caremark merger, which was being criticized by Wall Street. She ended up creating Maintenance Choice, a program that debuted in 2009 and allows patients on long-term drug regimens to get savings from 90-day prescriptions and receive their medication either by mail or, for the same price, in person at CVS pharmacies. Some 20 million customers now use Maintenance Choice.

Merlo, who succeeded Ryan as CEO in 2011, has continued the expansion into drug distribution. In 2014, CVS paid $2.1 billion for Coram, which delivers treatments to homebound patients. The same year, the company teamed with Cardinal Health to create the largest U.S. generic-drug purchasing operation, Red Oak Sourcing. And in August, CVS closed a $12.7 billion deal for Omnicare, a distributor of prescription drugs to nursing homes and assisted-living facilities. The buying binge has played well on Wall Street: CVS's market value has doubled in just three years to some $120 billion.

Today CVS likes to think of itself as a one-stop shop for health care—with the PBM and CVS/

CHART SOURCE: COMPANY REPORTS

pharmacy working together in a virtuous circle. The retail stores get 71% of their revenue (or $48 billion last year) from filling prescriptions (756 million of them in 2014), something Caremark helps fuel with its 65 million members. And every time a Maintenance Choice member opts to pick up meds from a store, there's a chance she'll buy a bottle of Windex or a tube of Colgate toothpaste while she's there.

Just as crucially, CVS has been able to use the symbiotic relationship between Caremark and CVS/pharmacy to motivate more patients to stick to their drug regimens—a top priority for the health plans and managed-care organizations that Caremark is trying to woo. According to the American College of Preventive Medicine, only 25% of people are still taking medications they are supposed to one year after they get their prescription, a failing that costs the U.S. health care system more than $100 billion a year—for instance, when medication noncompliance leads to hospitalizations for patients with congestive heart failure.

Foulkes has been at the forefront of CVS's efforts to boost adherence. In 2011 she led a team that created the company's Pharmacy Advisor program, which offers counseling in stores and by phone to Caremark members with chronic conditions. A 2012 study commissioned by CVS found that face-to-face interventions by pharmacists increased adherence rates by 3.9%. "There was an opportunity for us to shift our model from just filling prescriptions as efficiently and productively as possible to providing services in the store that actually keep people on the medicines," Foulkes says. Taking medication for a chronic condition is an experience that she knows firsthand.

"I REMEMBER WHEN I FOUND OUT I was having my fourth child, I was like, 'Oh, no!'" Foulkes is in a conference room fielding questions from summer interns with her usual candor, and a young man has just asked her about work-life balance. She wasn't sure she could manage. But juggling family and a fast-rising career, she says, taught her not to overthink everything. "You just take it one day at a time."

That kind of practical approach has served Foulkes well, even as it helped lead her down a path she never would have imagined while growing up in Providence—building a career and life in her hometown. The oldest of five children of a prominent local lawyer—and the niece of former senator Chris Dodd of Connecticut—young Helena Buonanno planned to make her mark somewhere besides Rhode Island. "When I left for college, I thought I would never come back," she says. "I was better than Providence."

Foulkes studied economics at Harvard, where she graduated magna cum laude and met her future husband, Bill. Her adviser for her senior thesis was Larry Summers, who would go on to become Treasury Secretary and, for a while, president of Harvard. He recalls Foulkes as one of just a handful of undergrads he worked with over the years who came across as "extraordinarily effective"—another being Facebook COO Sheryl Sandberg.

After graduation, Foulkes took a job in investment banking at Goldman Sachs in New York City but found that she wasn't captivated by the art of dealmaking. She then served a short stint at Tiffany & Co., where she discovered her love of retail. (She also enjoyed the jeweler's employee discount.) After getting her MBA at Harvard, she remained in the Boston area with her husband, who had a gig with Gillette. Foulkes started at CVS on July 22, 1992, her third wedding anniversary, and spent a few years commuting before the couple relocated.

Just as her career was beginning to take off, Foulkes was confronted with a scary personal crisis. One day in 1999, she was having lunch with her husband when he noticed a lump in her neck. It turned out to be early-stage thyroid cancer. Foulkes had surgery and was back on the job in a matter of weeks, leading the effort to launch ExtraCare. While she must take daily supplements for the rest of her life to replace her thyroid hormone, it hasn't

Foulkes stands in front of the pharmacy counter at a 10,000-square-foot mock-up store on the campus of the CVS Health headquarters in Woonsocket, R.I. As an undergrad econ major at Harvard, she impressed her thesis adviser, Larry Summers, as being "extraordinarily effective."

In June, CVS agreed to pay $1.9 billion to acquire and operate some 1,700 Target pharmacies and clinics. It will be up to Foulkes to successfully integrate the new locations into CVS/pharmacy.

slowed her down much. Foulkes, who ran three Boston Marathons before her diagnosis, completed the New York Marathon in 2008. She views her annual checkup as a time to reflect on how things could have been a lot worse. Says Foulkes: "Every year it's my ritual that reminds me how lucky I am."

HER RISING PROFILE has led some to speculate that Foulkes is being groomed to be the next CEO of CVS Health. While the company hasn't announced a formal succession plan, it's clear that Foulkes would be a leading candidate to eventually replace Merlo—with an emphasis on eventually. Only four years into the CEO job, the 59-year-old Merlo is not likely to be going anywhere anytime soon. "I'm looking forward to leading the team for years to come," says Merlo when asked about possible successors. Then he adds, jokingly, "There's a lot of miles left in this guy."

But Foulkes's friend in the governor's mansion says she definitely sees Foulkes as CEO material down the line. "She's a leader," says Raimondo. "She can motivate people, and that's what every CEO needs to do."

Foulkes, meanwhile, says she is totally focused on the day-to-day challenges involved in operating CVS/pharmacy. Assuming the deal gets finalized, that will soon include integrating the nearly 1,700 pharmacies CVS is buying from Target and making that underperforming business profitable. Foulkes will also need to stay on top of trends in a health care system that is changing quickly, particularly when it comes to the pharmacy business.

According to Adam Fein, president of Philadelphia research firm Pembroke Consulting, within just two years nine out of 10 drugs dispensed in the U.S. will be low-price generics, cutting into pharmacy revenues. At the same time, Fein is forecasting that specialty drugs—pricier treatments for problems ranging from high cholesterol to HIV—will soon generate 15% of the industry's revenues. The competition for those lucrative prescriptions will go a long way toward determining who wins in the drugstore business long-term.

To grow sales outside the pharmacy, Foulkes must square off with CVS/pharmacy's old retail rival, Walgreens. It won't be easy. Walgreens has suffered from some missteps in recent years. For example, it permanently lost countless customers to CVS when for nine months in 2012 it refused to fill prescriptions for Express Scripts members because of a spat over reimbursement rates. But it's done plenty of things right too. Walgreens sold off its own PBM a few years ago in order to focus more on the quality of its stores. And its merger with Alliance Boots has brought in more premium beauty products to a drugstore chain some already see as offering a more inviting retail experience. The YouGov Brand Index, which tracks consumer attitudes, has found that Walgreens regularly edges out CVS's drugstores. Foulkes is counting on her team of merchants to help her close that gap.

Back in the mock store, the items that generate the most enthusiasm from Foulkes as she tours with her executives are in the beauty section. She is particularly taken with a new display for Makeup Academy, or MUA, a leading CVS store brand of beauty products. Unlike the clunky fixtures CVS now uses—which force customers to reach inside to pull out a stick of, say, lip balm—the stand-alone shelves coming this fall make products easier to reach, increasing the odds a shopper will engage. Foulkes, who early in her career at CVS was a category manager for cosmetics, remarks at how much the display pops with color. "It's really inviting," she says approvingly.

To Foulkes, every detail counts. "If you have a good experience in the front of the store," she says, hammering home the message again, "you're more likely to be comfortable using us in the pharmacy." It's strategic thinking worthy of a CEO.

ANDREW GOMBERT—EPA/CORBIS

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22

Why Wall Street Loves to Hate Mylan's CEO

Heather Bresch elevated generic-drug maker Mylan from dinky to dominant—and more than doubled its stock price. But to some angry investors, she's still "what's her face."

Photograph by ANDREW HETHERINGTON

By **Jen Wieczner**

AT 6 A.M. ON THURSDAY, July 23, Heather Bresch was running on the treadmill in her home gym when she found out that four men in Amsterdam had effectively seized control of half her company.

In Bresch's wild world, this qualified as wonderful news.

Bresch is the CEO of Mylan, the generic-drug maker that spent the past summer tangled in a three-way takeover battle with two other drug-industry giants. The Dutchmen's maneuver, which transferred a large chunk of Mylan shares to a special foundation called a *stichting*, was the culmination of a strategy Bresch had quietly initiated months earlier. It acted as a poison pill that would undermine Teva Pharmaceuticals' $40 billion hostile takeover bid for Mylan, taking the power to accept the offer out of common shareholders' hands. If that bid collapsed, Bresch would be free to pursue the deal she really wanted, an effort she'd launched just before Teva's offer: Mylan's own hostile takeover of Ireland-based drugmaker Perrigo.

Still, it was too early to celebrate. A couple of hours later, eating breakfast (two hard-boiled eggs, sliced and seasoned) with a reporter in her office at Mylan's headquarters outside Pittsburgh, Bresch seemed on edge and ready to pounce. Clad

Heather Bresch in Mylan's headquarters in Canonsburg, Pa.

NO. 22 HEATHER BRESCH

in a black leather laser-cut sheath dress and her signature five-inch stilettos, she kept a tense eye on CNBC until she saw what she'd been waiting for: a commentator declaring that the Teva deal was as good as dead.

Mylan's stock began falling on the news—in fact, its shares would tumble 30% over the next six weeks—but Bresch wasn't concerned about shareholders' feelings. Her low West Virginia twang intensified as she stated her resolve to keep Mylan independent at all costs. "We're not afraid to take the path of resistance, as you're witnessing today with this love triangle we're in," she said, then corrected herself: "Well, not love."

By the following Monday, Bresch had won: Teva withdrew its offer. The convoluted corporate dance had protected Bresch's job—and with it, her place as the most powerful woman in the drug industry. But it also thickened the cloud of controversy that has shadowed her career, turning her story into a juicy saga of sexism, drugs, and even rock and roll.

Bresch, a 46-year-old who's spent more than half her life at Mylan, has steered the company's

HEATHER BRESCH — CEO / MYLAN

"WE DON'T CATER TO WALL STREET. AND THEY DON'T LIKE THAT."

transformation from a quirky outfit run out of a West Virginia trailer to a global operator with 30,000 employees in 145 countries. Born into politics—her father, Joe Manchin, is a longtime West Virginia Democratic stalwart who's now a U.S. senator—Bresch has mastered the regulatory world. Since becoming CEO in 2012, she's overseen a major revenue increase; Mylan projects sales of up to $10.1 billion this year, up from $6.1 billion in 2011. Today she remains the only woman ever to run a *Fortune* 500 pharma company—though Mylan was kicked off this year's 500 list after reincorporating in the Netherlands in a tax-lowering transaction known as an inversion.

Still, Bresch's accomplishments have earned her ... well, not love. Often quite the opposite. As CEO, Bresch has been eclipsed by Robert Coury, her predecessor and mentor, now Mylan's executive chairman—a brash fountain of expletives who many observers believe still pulls Mylan's strings. Institutional investors have long accused Coury and Bresch of putting their interests ahead of those of shareholders—a suspicion that Mylan's rebuff of Teva only deepened. "They're kind of in the penalty box," says Marty Sass, a money manager of $7.5 billion who sold half his Mylan stake in July. "Everybody hates them."

Under Bresch's leadership, Mylan has also stumbled through a series of ethically messy mishaps and public relations gaffes. Mylan's inversion took place just as uproar over the tactic reached a fever pitch on Capitol Hill. (Among the politicians who denounced the move was Bresch's own father, though he later changed his mind.) Critics have called out the company for unusually high executive pay packages, questionable use of company jets, and murky relationships with board members. Then there's "the Heather Bresch situation," as she herself calls it, a scandal surrounding her executive MBA credentials—when you Google her name, the episode still ranks even higher than her official Mylan bio.

These stumbles have provided plenty of ammunition for Bresch's opponents—including Perrigo, which has invoked corporate oversight "failures" in its fight against Mylan's takeover bid. "Mylan's governance has always been a weak point for them," says Bernstein analyst Ronny Gal. The scandals also exacerbate the business-world boys' club's tendency to underrate Bresch—to see an attractive, fashionable woman executive and assume those are her best qualities. "What they just really don't understand is that it's got nothing to do with sex, nothing to do with male vs. female," says Mark Greene, a partner at Cravath Swaine & Moore, which has represented Mylan in M&A deals. "She's the most knowledgeable person in the room on the subject matter. People are caught off guard."

Bresch rolls her eyes at the controversies, characterizing them as the inevitable cost of making tough decisions. "I just think all that's built a lot of character," she says.

GROWING UP IN a political family, Bresch developed a tough shell. During one state legislative race in her teen years, her face was plastered across town as part of a campaign against her father; her first week of high school, she had to cross a picket line—led

by her science teacher—of union members complaining about Manchin. The Italian-American family was a frank-speaking, often chauvinistic bunch, by their own description, but also easygoing, and they frequently let loose in the company of their West Virginia neighbors. "There was a wild and crazy side," says one family friend, famed University of Alabama football coach Nick Saban.

Bresch testifying during a 2009 congressional hearing. Known among colleagues as a policy wonk, she's equally comfortable working with the government (as she did on generic-drug regulations) and criticizing it, as she did when defending Mylan's inversion.

COURTESY OF MYLAN

Bresch joined Mylan almost by accident. After graduating from West Virginia University, she taught aerobics in San Diego before moving back to the "Wild and Wonderful" state as a 22-year-old newlywed in need of a job. Her well-connected father ran into his friend Milan Puskar at a basketball game and finagled her an interview at Puskar's drug company. Dropping by Mylan's executive offices, then located in a double-wide trailer in Morgantown, Bresch walked out with a job typing labels in the factory basement.

Mylan was a local success story, a company formed in 1961 by a pair of Army vets who distributed medicine out of their car. In the early 1990s the concept of a generic drug—a cheaper copy of a branded medication whose patent had expired—was still new and nebulous. So after working her way out of the basement and into business development, Bresch became an expert on the Hatch-Waxman Act, a 1984 law that basically created the modern generic-drug industry by giving generics a special, faster approval process. CEO Puskar eventually dispatched her to lobby Congress.

But responsibility didn't bring respect. Bresch's mother, Gayle Manchin, says Bresch had to put up with a sexist culture at Mylan that reinforced the glass ceiling through demeaning treatment of women. "I'm going to use the term 'sexual harassment,'" Gayle says, adding, "I don't think that the men in charge there ever, ever would have said in a million years that Heather would be CEO." Bresch says harassment is too strong a term but notes that it was an "old boys' club" environment: Still, she says, "I never felt that I couldn't hold my own."

Bresch's arc changed after Mylan named Coury, an industry outsider, as its CEO in 2002. At first it looked as though Bresch might be pushed out of Mylan entirely. Weeding out Mylan's upper ranks, Coury eyed Bresch as a prime target. He marched into her office to tell her "she was the most overpaid and should be looking for another job," Coury recalls. Bresch had been thinking of trying a new career. But after Coury's tough talk, "I said, 'Well, shit, if I quit now, he's gonna think he scared me off—like he's right and I bring no value,'" Bresch says.

Bresch strove to outwork her peers and showcase her exhaustive knowledge of the industry. Pregnant with her second child, she powered ahead, even dialing into conference calls from a hospital room just after her son was born. "She just had balls," says her assistant of 14 years, Laurie Marquis. Coury eventually acknowledged Bresch's talent—"I was moved," he says.

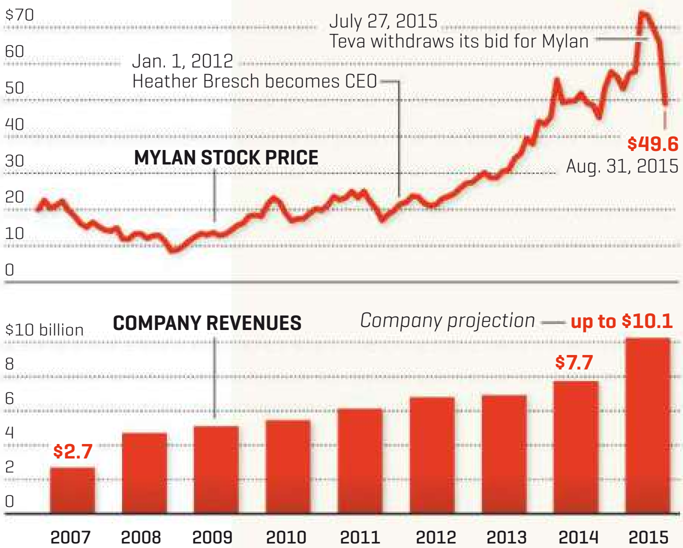
One of her formative experiences came in 2004, when Mylan was hit by a hostile takeover attack, from activist Carl Icahn; Coury tasked Bresch with keeping Mylan's other shareholders from joining Icahn's side. Icahn eventually backed off, but Bresch says the battle crystallized for her the tensions between the priorities of Wall Street—including maximizing share price in the short term—and Mylan's own goals. "We really were run more like a family-owned [company]," Bresch says. "We don't have the same view that Wall Street does."

In 2007, Mylan scored the deal that would take

NO. 22 HEATHER BRESCH

INVESTORS' FRIEND OR FOE?

Mylan's resistance to Teva's takeover bid helped end a 3½-year bull run for its shareholders.



it global—the $6.7 billion acquisition of German drugmaker Merck's generics business, which had more than double Mylan's revenue. Coury put Bresch in charge of the integration, promoting her to COO. Skeptics compared the deal to a python swallowing a Volkswagen: Bresch, however, impressed nonbelievers by summiting with managers across Mylan's 139 new countries on weekly conference calls (6 a.m., Pittsburgh time). "They rallied, and everyone played above their head, and no one more than Heather," says Alan Hartman, a partner at Centerview who advised Mylan on the deal.

It was during this odyssey that the Heather Bresch situation surfaced. The October 2007 news release announcing Bresch's promotion declared that she had received an MBA from West Virginia University; by December, the *Pittsburgh Post-Gazette* reported that WVU had altered her transcripts and awarded her degree retroactively. Joe Manchin by then was West Virginia's governor, and the implication of cronyism tainted Bresch just as she was emerging as a corporate leader.

A subsequent investigation by the school stripped Bresch of her degree. Its 95-page report concluded that administrators had given Bresch grades "pulled from thin air" because of her "high profile"—but it didn't directly fault either father or daughter. "I certainly to this day believe I did everything I needed to do to get my degree," says Bresch. By 2010 the benefits of the Merck acquisition were flowing to Mylan's bottom line, and people stopped caring as much about Bresch's business school pedigree. "Mylan's board decided it wasn't a requirement for the job, and Wall Street moved on," says David Buck, managing director and pharmaceutical analyst for Northland Capital Markets.

BRESCH'S LEADERSHIP ON the Merck deal made her the clearest candidate to be Coury's successor. Still, Coury shocked Bresch and the Mylan board when he informed them, in the fall of 2011, that he'd be handing over the reins. When Coury announced the change on an earnings call in October, analysts' first question was, "Why now?" Coury retorted, "The real question is, Why not now?"

Some investors and analysts believe Coury was under pressure to kick-start Mylan's stock price; shares had recently plateaued, and Coury had a troublesome tendency to overpromise on earnings forecasts and FDA approvals. His unabashed potty mouth ("I like four-letter words, and 'cute' is not one of them, okay?" he tells *Fortune*) also grated on many. The ascent of Bresch, a media-savvy executive who knew when to be politically correct and when not to be, smoothed some ruffled feathers. "They moved from being strange people you can't trust to just being eccentric," says Derek Taner, portfolio manager of Invesco's Global Health Care Fund, of Mylan's management.

But Coury did anything but retire. As executive chairman, he says, he retains four responsibilities: talent management, major M&A, dealing with "all the issues" (read: any controversies), and the not-so-minor task of "leading the strategic direction of the company." He insists that Bresch "is the one that runs this company every day—period, said, done, dry!" But even his compliments have a way of minimizing her role. "You know what a woman can do for a home?" says Coury. "That's what she's done for this corporation." ("I hate that," groans Bresch. "He's said that before and I've told him not to ever say it again.")

The result: Bresch often looks like she's merely

GRAPHIC SOURCES: S&P CAPITAL IQ; MYLAN

Coury's deputy. Some investors and analysts have concluded she's irrelevant, referring to her as "what's her face" or a "placeholder" when discussing Mylan. "Heather Bresch might be a very talented, loyal employee," says Jeffrey Sonnenfeld, a leadership expert at the Yale School of Management, "but I don't think anybody believes that she's really the functioning CEO—that's Coury."

Executives who work closely with Mylan say that such dismissals underestimate her. She's a key, eloquent voice in Mylan's major strategic decisions, and her operational deftness has far exceeded her board's expectations, says Mylan board member and former AmerisourceBergen CFO Neil Dimick: "Her ability to lead—that we did not know." Admits Hartman, the Centerview adviser: "Most people would have bet against" Bresch as a leader, "but she has an incredibly good gut feel of it."

Bresch demonstrated that feel early on as CEO with a long-overdue brand overhaul, writing Mylan's first mission statement, which articulated a vision to reach 7 billion people—in other words, everyone in the world—with Mylan's medicines. The politician's daughter also helped draft and rally industry support behind the 2012 Generic Drug User Fee Act, a law that funded more FDA inspections of generic-drug factories overseas. Bresch persuaded Mylan's competitors to accept greater regulatory oversight and pay the government for the pleasure. GDUFA also gave a chance for Mylan to toot its own horn: After going nearly 50 years without any manufacturing-related product recalls, Mylan has the best quality record in the industry, outside experts agree.

Under Bresch, Mylan has more consistently met earnings expectations, investors say, and its stock is up 124% during her tenure, more than double the S&P 500. Bresch is particularly proud of the hidden gem she found during the Merck acquisition: the EpiPen, a 25-year-old pocket-size injector for alleviating potentially fatal allergic reactions. The product grossed less than $200 million annually before Mylan bought it. Bresch made it "my baby," she says; last year it became Mylan's first billion-dollar blockbuster product—a rare achievement for a generics company.

On governance, however, Mylan hasn't looked as impressive. In 2012 the *Wall Street Journal* reported that Coury was regularly using Mylan company planes to fly to cities where his singer-songwriter son, Tino, was performing. (Coury and Bresch are granted personal use of the company aircraft under Mylan's employment contracts.) As the Teva takeover battle was coming to a head, the *Journal* reported that Mylan had built its Pittsburgh offices on land previously co-owned by the lead independent director of the board—who sold it for $1 to a third party hours before Mylan bought it. Corporate ethics experts decried the previously undisclosed transaction as a conflict of interest involving a "related person." Bresch tells *Fortune* the director was "gracious enough" to relinquish his interest in the plot before Mylan bought it. Bresch even blames Teva for planting the story "to make us look like bad people." (Teva declined to comment.)

Bresch shrugs off these issues with striking ease. Comfortable in her scandal-thickened skin, Bresch says she has pardoned many colleagues whose dirty laundry might have led other employers to demand their resignations. As long as they didn't break the law, she's unfazed. "The easiest thing to do would have been to let somebody go or not hire

Robert Coury, Mylan's executive chairman and former CEO. Mylan's stock performed much less well under Coury than under Bresch, rising just 48% in nine years.

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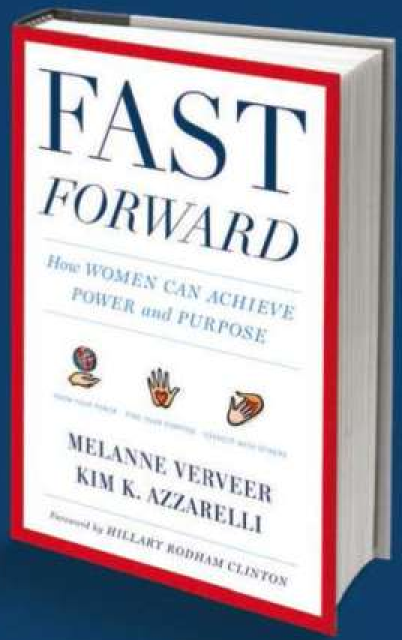

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them because it's messy," she says. "But you know what? Life's messy."

MYLAN'S RELATIONS WITH investors have only grown messier during this year's takeover battles. Mylan began its inversion last July, by acquiring part of Abbott Laboratories' international drug business. But when shareholders overwhelmingly approved the agreement in January, they largely missed or ignored an "anti-takeover" clause about the *stichting*. Of the more than a dozen analysts, investors, and governance experts polled by *Fortune,* only one remembered even reading about it. (Several struggled to pronounce the word, calling it a "stitching," like a needlepoint pillow.) Mylan is now the target of two shareholder lawsuits claiming that references to the anti-takeover measure in the agreement were vague and misleading. (Mylan says the suits are meritless.)

A few weeks after the inversion was completed, Mylan set up the *stichting* foundation, whose charter gives its four-man board (chosen by Mylan) the right to combat threats to Mylan's interests by calling in preferred shares worth up to 50% of the company's voting rights. A "stealth" feature native to the Netherlands, the *stichting* is "an invisible fortress," says Stephen Davis, senior fellow of the Harvard Law School Program on Corporate Governance. "It's there to sort of short-circuit accountability to the investors."

That's exactly what happened in July, when the *stichting* sabotaged the Teva deal. Mylan investors who had salivated over Teva's offer—which represented a premium of as much as 48% over their shares' value—were left with a "sour taste in their mouth," says Invesco's Taner. Bresch and Coury told them that Mylan was a stakeholder company, not a shareholder company: It could consider the interests of their employees (who might lose their jobs) and patients (whose drugs might cost more if the merger reduced competition) above those of investors. "It came across as we'll do anything to remain independent, and basically screw the shareholders," says Taner, whose firm is one of the largest owners of Mylan stock. Bresch's response is a familiar one: "We don't cater to Wall Street, and they don't like that."

Nor does Bresch subscribe to the Big Pharma playbook. The deal doesn't conform to the shareholder-friendly formula currently driving other mergers in the sector: Mylan isn't predicting an immediate earnings boost from the deal; Perrigo doesn't have a hot new drug, and it won't greatly expand Mylan's share of the prescription generics market. The leader in "white-label" generic over-the-counter products, Perrigo dominates the market for cheaper, drugstore-brand versions of Advil and Neosporin. Owning Perrigo would thus make Mylan a more diversified health care company, putting it both behind and in front of pharmacy counters.

Bresch managed to sell that vision to a majority of her shareholders, who approved pursuing Perrigo on Aug. 28, with 66% of the vote (against the recommendation of influential proxy advisory ISS). It will be harder to persuade Perrigo's shareholders to take the deal, especially since the sinking price of Mylan's shares has sharply lowered the value of the bid. "This offer isn't even in the right zip code," Perrigo CEO Joseph Papa tells *Fortune* in an email.

Bresch will have until Nov. 13 (the deadline for Perrigo investors to tender their shares) to win them over. If she succeeds, the roughly $35 billion deal would be the largest hostile takeover in history, according to Dealogic. But if there's one thing Mylan and Bresch are comfortable with, it's hostility. Bresch slips back into plain-speaking West Virginia mode as she describes what will happen when—not if—the bid succeeds: "We will absolutely embrace them, and they will see and feel our authenticity."

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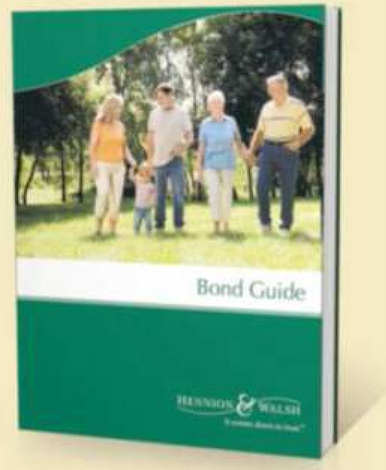

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Why insured bonds often provide an extra degree of security. (Page 2)

Why municipal bonds can potentially provide safety of principal. (Page 3)

How municipal bonds can potentially provide tax-free income. (Page 3)

Strategies for smart bond investing. (Page 4)

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AWARD WINNERS — FROM THE EDITORS OF FORTUNE AND FOOD&WINE

The Most Innovative Women in Food & Drink

These dynamos are bringing fresh ideas to everything from clean water and home products to goat cheese and wine—in ways that benefit the broader world.

01

SARINA PRABASI AND BARBARA FROST / WATERAID

Improves access to clean water, toilets, and hygiene for the world's poorest people.

02

Kathleen Ligocki
Harvest Power

Transforms food waste into renewable energy. For more, see the story on the next page.

03

Jessica Alba
The Honest Company

Sells household goods that are both eco-friendly and affordable.

4. **Jen Johnson and Serafina Palandech**
Hip Chick Farms
Reimagines frozen food with organic and humanely raised chickens.

5. **Lynnette Marrero and Ivy Mix**
Speed Rack
Raises money for charities through an all-female mixology competition and promotes industry women.

6. **Julie Smolyansky**
Lifeway Foods
Leads the yogurt-like kefir and probiotic movement.

7. **Leanne Brown**
Author of Good and Cheap
Writes and gives away healthy recipes targeted to families on tight budgets.

8. **Danielle Gould**
Food + Tech Connect
Creates events, resources, and a community for entrepreneurs working to improve the food system.

9. **Lauren Bush Lauren**
FEED
Raises money to fight global hunger through supper fundraisers.

CONTINUED ON NEXT PAGE

01: COURTESY OF WATERAID; 03: STEFANIE KEENAN—GETTY IMAGES

NO. 2 THE MOST INNOVATIVE WOMEN IN FOOD AND DRINK

Harnessing the Energy of Uneaten Vegetables

Harvest Power is transforming food waste into a power source. Could your child's untouched broccoli help provide electricity?

Kathleen Ligocki, CEO of Harvest Power, in front of one of the company's digester tanks in Orlando

By **Beth Kowitt**

A BIT PAST the welcome banner for Walt Disney World, there's a part of the theme-park expanse where tourists never tread. It's reserved for the 100 tons—eight to 10 truckloads' worth—of uneaten food delivered here daily from around the 40-plus-square-mile property and beyond. The site is far enough from the likes of Splash Mountain and the Cinderella Castle to keep the aroma of rotting lettuce and onions from disrupting the magic of the Magic Kingdom.

To Kathleen Ligocki, the pungent odor smells like money. Ligocki, 59, is the CEO of Harvest Power, a $145-million-revenue startup that turns food waste into fuel. Here at the company's Energy Garden in Orlando, Harvest has constructed an anaerobic digester (with two massive domed tanks) whose processes emulate those in a cow's stomach. "It's biomimicry," Ligocki says, "but more efficient."

The digesters use microbes to break down a mixture of 20% food waste; 20% fats, oils, and grease; and 60% treated sewage (euphemistically called biosolids) from Disney's nearby wastewater treatment plant. "When you add food waste to biosolids, it's like crack—biogas crack," Ligocki says.

CONTINUED FROM PREVIOUS PAGE

10. **Carla Hall**
Restaurateur and co-host of The Chew
Motivates home cooks with her accessibility and nontraditional career path.

11. **Cristina Mariani-May**
Banfi Vintners
Uses her growing wine empire to push for sustainable wine.

12. **Kara Cissell-Roell**
VMG Partners
Backs young food brands in the health and wellness category.

13. **Pashon Murray**
Detroit Dirt
Leads the composting movement to divert food waste from landfills.

14. **Kara Goldin**
Hint
Offers a healthy alternative to soda with her unsweetened flavored water.

PHOTOGRAPH BY MARK ARBEIT

"You just produce a lot more energy." After 26 to 28 days in the digester tanks, the resulting biogas—enough to power 3,000 homes for a year—is captured and sold back to Disney.

Till now, food has largely escaped the recycling revolution that has taken plastics, glass, metals, and garden waste out of landfills. Edibles still make up 15% of municipal solid waste, with the vast majority of all consumer food trash heading straight for the dump. Food has lagged in recycling because it's difficult to deal with—it's wet and sticky, making it tough to separate. (Because it's mixed with other types of waste, it can be tricky to obtain predictable quantities. Biosolids are another matter. "It's the most secure stream there is," Ligocki says with a laugh. "If you're near a population, you can pretty much guarantee it. And there's no competition.") "Clean" food waste—say, items thrown out by supermarkets and never touched by consumers—is easier to handle but also in higher demand. Farmers want it as pig or cow feed.

Harvest Power is able to process "dirty" food waste, which is contaminated with things like plastic and silverware. Before going through Harvest's digester tanks, food gets pushed through screens with half-inch holes to keep out foreign objects.

What we eat—or rather don't eat—is the next frontier of recycling, and Harvest is in a unique position to capitalize. Right now the U.S. and Canada have about 30 anaerobic digesters breaking down food. Ligocki thinks hundreds more will be built in the next decade. Considering Germany alone has about 7,000, it's hardly impossible.

Harvest's edge comes from sitting at the intersection of three converging industries: waste, energy, and soil-related products (including organic compost and fertilizers). Each has its own distinct profit stream. Tipping fees, or the money paid to Harvest for receiving the waste, is the biggest driver. Next comes the sale of biogas, and third is the sale of organic fertilizers made from the leftovers of the digestion process. In Florida, for example, the resulting fertilizer is sold to orange growers.

Ligocki was no expert in food waste when she took the CEO job a year and a half ago. She recycled and composted at home, but that was about it. An auto-industry veteran with stints at General Motors, United Technologies, and Ford, she became the CEO of auto parts supplier Tower. She helped Tower get through bankruptcy before leading a T. Boone Pickens–backed fuel-efficient-vehicle startup called Next Autoworks. She then headed to Kleiner Perkins, which is an investor in Harvest. Ligocki was an observer to the Harvest board when the company started to look for a new CEO. Its founder, Paul Sellew, had led the startup through a period of rapid revenue growth, but it needed to focus on profits. "I'm a person who looks at how do you scale, not how do you one-off, but how do you create a hundred of these or 500?" Ligocki says. "That's really the next question."

Ligocki thinks the answer will be using the extra capacity of U.S. wastewater treatment plants—about half of which have digesters to treat biosolids. Harvest is working on such a project with East Bay Municipal Utility District in Oakland. Consider this: The Orlando facility cost about $30 million to build; had the digesters and infrastructure already been in place, it would have reduced costs by at least $10 million and sped construction.

"We think it is one of the next trends," Ligocki says. Indeed, momentum is building. A growing number of states and cities have banned commercial food waste from landfills. And New York City's mayor recently proposed mandating such recycling for large food enterprises, providing another catalyst. "We are at a real turning of the market," Ligocki says. "I think food diversion will be very different in 10 years." ■

11: COURTESY OF BANFI VINTNERS; 20: GOSIA WOZNIACKA

15. Dominique Crenn
Atelier Crenn
Her San Francisco restaurant pushes culinary boundaries, earning Michelin stars.

16. Bertha González Nieves
Casa Dragones
Combines the traditional and the modern with her high-end tequila.

17. Allison Hooper
Vermont Creamery
Invests in and cultivates a vibrant local goat-milk industry for cheese.

18. Jessamyn Rodriguez
Hot Bread Kitchen
Provides training and job placement for immigrant and low-income women.

19. Caroline Frey
Winemaker
Applies organic and biodynamic practices to some of the most historic French vineyards.

20. Nikiko Masumoto
Masumoto Family Farm
Raises awareness about the challenges facing small family farms.

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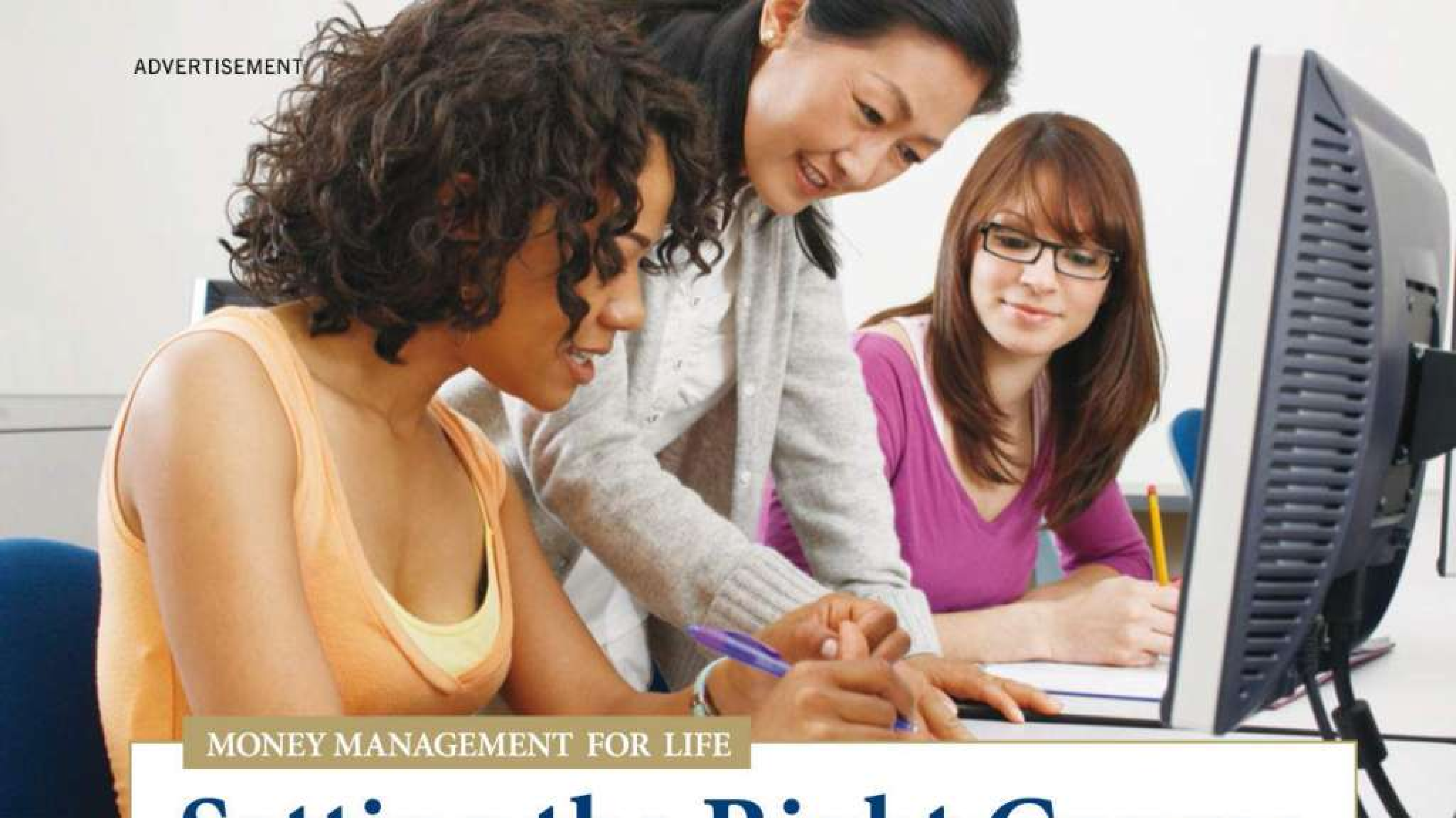

MONEY MANAGEMENT FOR LIFE

Setting the Right Course

A RECENT FINANCIAL LITERACY study of college students across the United States found that 89% of respondents scored the equivalent of a "C" or below in the topics of earning, spending, saving, borrowing, and protecting. The "National Financial Capability Study" conducted by Inceptia surveyed 962 first-year students; none scored in the "A" range. Government and the private sector have both taken note.

Helping college students become financially capable—while they're in school and beyond—is key to creating a generation of adults in the position to attain their financial goals. That's why in June, President Obama's Advisory Council on Financial Capability for Young Americans issued a report detailing the ways in which government, educators, and the private sector could work together to better build students' financial knowledge and skills. Said U.S. Treasury Secretary Jacob J. Lew of the council's recommendations: "The financial decisions young people make can set the course for their futures. We must ensure that young people, especially those in underserved populations, learn early about life's financial choices."

Corporate America, meanwhile, has taken a page from the same book, rolling out programs that teach financial literacy and help students better manage their money while they're still in college.

The Guardian Life Insurance Company of America (Guardian), for example, began a community college curriculum called Money Management for Life in 2013. The program gives community college students the tools they need to manage their personal finances throughout various stages of their lives. The three-credit course covers topics such as budgeting, expenses, managing student loan debt, and saving and investing for retirement. Guardian executives regularly contribute as guest speakers throughout the course, which is taught by community college faculty. The course has been rolled out to six community colleges in Connecticut, Massachusetts, and Pennsylvania and will expand to two additional colleges in New York and Wisconsin this fall.

The belief that the private sector has a role to play in the financial education of today's youth is one that has gained significant traction in recent years, says Ted Beck, president and CEO of the National Endowment for Financial Education in Denver. And he adds that like employee wellness initiatives, financial literacy programs are designed to prevent problems before they occur.

"Companies want to be able to hire informed, educated employees who are focused on doing their job, not stressed about money," he says. "An investment in financial literacy at the college level is an investment way of helping to put into place good money habits that people can then carry throughout their lives and careers." ●

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Fortune's

Most Powerful Women International

Ten newcomers. Lots of fortysomethings. Our rankings of the Most Powerful Women in the Asia-Pacific region, Europe, the Middle East, and Africa show that progress is real.

CHANGE IS GOOD—particularly when it comes to *Fortune*'s rankings of the Most Powerful Women outside the U.S. For the second straight year, we rank women in the two parts of the world where women are advancing the most: Europe, the Middle East, and Africa (EMEA), and the Asia-Pacific region. (We didn't include women from less represented areas, such as South America, this year.) In Asia-Pacific, 11 of our top 25 hail from mainland China—although the top spot goes to India's Chanda Kochhar, who heads the $103-billion-in-assets ICICI Bank. In EMEA, while Banco Santander chairman Ana Botín repeats as the No. 1 MPW, this year's list includes six brand-new names. This may be a sign that moves by several European countries to apply quotas to boards are paying dividends in the corner office. —*Jennifer Reingold*

By **Rupali Arora, Erika Fry, and Claire Groden**

From left: Shelley Broader, Walmart; Chanda Kochhar, ICICI Bank; Zhang Xin, Soho China; Ana Botín, Banco Santander; Isabelle Kocher, Engie

ASIA-PACIFIC

Six different countries are represented this year—but mainland China takes the lion's share, with 11 spots on our 2015 list, up from 10 last year. Another big change: More and more of our MPWs are self-made business-women with no political connections or ties.

01 CHANDA KOCHHAR
53, CEO and Managing Director, ICICI Bank
India
2

02 ARUNDHATI BHATTACHARYA
59, Chairperson, State Bank of India
India
4

03 CHUA SOCK KOONG
57, Group CEO, Singapore Telecommunications
Singapore
— 3

04 DONG MINGZHU
61, Chairperson and President, Gree Electric Appliances / China
8

05 NISHI VASUDEVA
59, Chairman and Managing Director, Hindustan Petroleum
India
— 5

06 LI DANG
58, President and Director, China General Technology / China
— 6

07 WANG FENGYING
45, CEO and Executive Director, Great Wall Motor / China
9

08 ROSE LEE WAI MUN
62, CEO and Vice Chairman, Hang Seng Bank / China (Hong Kong)
NEW

09 SHIKHA SHARMA
56, CEO and Managing Director, Axis Bank
India
10

10 HO CHING
62, CEO and Executive Director, Temasek
Singapore
7

11 LUCY PENG
42, CEO, Ant Financial and Chief People Officer, Alibaba
China
— 11

12 KWON SEON-JOO
58, CEO and Chairman, Industrial Bank of Korea
South Korea
15

13 WU YAJUN
51, Chairman, Longfor Properties / China
16

14 CHER WANG
56, CEO and Chairwoman, HTC
Taiwan
24

15 MAGGIE WU
47, CFO, Alibaba
China
12

16 HYUN JEONG-EUN
60, Chairwoman, Hyundai Group
South Korea
14

17 WEI SUN CHRISTIANSON
59, Co-CEO, Asia-Pacific, CEO, China, Morgan Stanley / China
18

18 ZHOU QUNFEI
45, CEO, Lens Technology / China
NEW

19 RACHEL DUAN
45, SVP, General Electric, President and CEO, GE Greater China / China
20

20 LEE BOO-JIN
44, President and CEO, Hotel Shilla, Adviser, Samsung C&T Trading and Investment Group
South Korea
NEW

21 SUN YAFANG
59, Chairwoman, Huawei Technologies
China
13

22 ALISON WATKINS
52, Group Managing Director, Coca-Cola Amatil Australia
21

23 SHEILA PATEL
46, CEO of International Goldman Sachs Asset Management, Goldman Sachs
Singapore
NEW

24 MARJORIE YANG
63, Chairman, Esquel / China (H.K.)
RETURN

25 ZHANG XIN
50, CEO, Soho China
China
17

PREVIOUS PAGE: BROADER: KEITH BEATY—TORONTO STAR VIA GETTY IMAGES; KOCHHAR: ABHIJIT BHATLEKAR—MINT VIA GETTY IMAGES; XIN: SIMON DAWSON—BLOOMBERG VIA GETTY IMAGES; BOTÍN: CRISTINA QUICLER—AFP/GETTY IMAGES; KOCHER: BRUNO DELESSARD—CHALLENGES-REA/REDUX; THIS PAGE, 1. TAYLOR HILL—GETTY IMAGES; 13: JEROME FAVRE—BLOOMBERG VIA GETTY IMAGES; 16: AHN YOUNG-JOON—AP; 20: LEE JAE-WON—REUTERS; 23: CHRIS RATCLIFFE—BLOOMBERG VIA GETTY IMAGES

EUROPE, MIDDLE EAST & AFRICA

More than half the members of our EMEA list are heads of major companies, six are newcomers, and 10 are located in the U.K. One surprise: Nine of our MPWs—including No. 1 Ana Botín of Banco Santander—work in finance, a sector known for its dearth of women.

01 ANA BOTÍN
54, Chairman, Banco Santander / Spain
— 1

02 ALISON COOPER
49, CEO, Imperial Tobacco / U.K.
— 2

03 ANNIKA FALKENGREN
53, President and CEO, SEB / Sweden
4

04 GÜLER SABANCI
60, Chairman and Managing Director, Sabanci Holding
Turkey
3

05 ORNELLA BARRA
61, President and CEO of Global Wholesale and International Retail, EVP, Walgreens Boots Alliance / U.K.
8

06 PATRICIA BARBIZET
60, CEO, Groupe Artémis; CEO and Chairman, Christie's International / France
9

07 CAROLYN MCCALL
53, CEO, EasyJet
U.K.
5

08 VERONIQUE LAURY
50, CEO, Kingfisher
U.K.
NEW

09 MOYA GREENE
61, CEO, Royal Mail
U.K.
6

10 DOMINIQUE SENEQUIER
62, President, Ardian
France
12

11 MARIA RAMOS
56, Group CEO, Barclays Africa
South Africa
10

12 DOMINIQUE LEROY
50, CEO, Proximus
Belgium
7

13 NANCY MCKINSTRY
56, Chairman and CEO, Wolters Kluwer
Netherlands
11

14 SHELLEY BROADER
51, CEO and President, EMEA, Walmart
Canada*
NEW

15 SERPIL TIMURAY
46, Regional CEO, AMAP, Vodafone / U.K.
— 15

16 LUBNA OLAYAN
60, Deputy Chairperson and CEO, Olayan Financing
Saudi Arabia
— 16

17 ELIZABETH CORLEY
58, Global CEO, Allianz Global Investors / U.K.
— 17

18 ISABELLE EALET
52, Global Co-Head of Securities, Goldman Sachs / U.K.
24

19 ISABELLE KOCHER
48, Deputy CEO and COO, Engie / France
NEW

* BROADER IS BASED IN CANADA BUT RUNS EMEA FOR WALMART

20 PASCALE WITZ
48, Executive Vice President, Global Divisions and Strategic Development, Sanofi
France
18

21 MARGARITA LOUIS-DREYFUS
53, Chairperson of Supervisory Board, Louis Dreyfus Holding
Switzerland
23

22 MARINA BERLUSCONI
49, Executive Chairman, Fininvest Group; Chairman, Mondadori Group / Italy
RETURN

23 RAKEFET RUSSAK-AMINOACH
49, CEO and President, Leumi Group / Israel
NEW

24 EMMA WALMSLEY
46, CEO, GSK Consumer Healthcare, GSK
U.K.
NEW

25 ANN CAIRNS
58, President, International Markets, MasterCard / U.K.
NEW

1: PABLO BLAZQUEZ DOMINGUEZ—GETTY IMAGES; 3: CASPER HEDBERG—BLOOMBERG VIA GETTY IMAGES; 7: CHRIS RATCLIFFE—BLOOMBERG VIA GETTY IMAGES; 12: FRANCOIS LENOIR—REUTERS; 17: TOM JAMIESON—THE NEW YORK TIMES

Integrating a Country, One Job at a Time

In Saudi Arabia, where separation of the sexes has deep cultural roots, there was no playbook for bringing women into the workforce—until Lubna Olayan and her family's business started writing one. How a quiet but influential CEO wound up on the leading edge of a major economic shift in the Middle East.

LUBNA OLAYAN

CEO AND DEPUTY CHAIRPERSON / OLAYAN FINANCING CO. (OFC)

By **Erika Fry**

16

EMEA MPW RANK

IN 1983, LUBNA OLAYAN became the first woman to work for her father's business—Olayan Financing Co. (OFC), a sprawling multinational conglomerate based in Saudi Arabia.

It would be 18 years before she got her first female colleague.

By then Olayan was running the company, and she'd had time to consider her singularity. "I was privileged to be a woman CEO of a large family business," she says. "I recognized there is something wrong with this—I can't be the only woman."

With her family's support, Olayan began a quiet, measured effort to expand the ranks—consulting colleagues and embarking on at least one stealth persuasion campaign to win over an especially resistant OFC

FAHAD SHADEED—REUTERS

NO. 16 LUBNA OLAYAN

partner. After months of careful planning, woman No. 2 was finally brought onboard.

That the arrival took so long reflects the difficulty of making changes in a profoundly conservative country where tradition had long kept women out of the workforce almost entirely. But the fact that OFC now employs some 400 Saudi women—including 56 who bustle alongside Olayan and their male colleagues in the Riyadh head office—shows how far the company and Saudi society have come since then in bringing women greater economic power.

Gradual though it is—those 400 women account for just a bit over 3% of Olayan's 12,000 Saudi-based employees—OFC's integration is a testament to the persistence and tactical savvy that have earned Olayan respect as a business leader in the Middle East and beyond. A Davos regular, she's a corporate board fixture and perennial member of *Fortune*'s international Most Powerful Women list. She has steered her 30-company conglomerate through a period of significant expansion; headcount has almost quadrupled since 2001. (Outside estimates put Olayan Group's annual revenue at upwards of $7 billion; the company declined to discuss its finances.) And while Olayan takes no credit for it, her drive for diversity has put OFC at the leading edge of a historic shift that has brought hundreds of thousands of Saudi women into private-sector jobs over the past five years. OFC's share of that total is modest, but the example Olayan sets as a rare female business leader in the region has had a profound influence.

ASADULLAH SHERAZEE — GENERAL MANAGER / COCA-COLA BOTTLING CO. OF SAUDI ARABIA

SAUDI WOMEN "ARE VERY PRODUCTIVE, VERY CONSCIENTIOUS, AND VERY MUCH ON TIME. I THINK IT HAS BEEN A VERY SUCCESSFUL ENDEAVOR. WE'RE LOOKING FOR MORE."

Olayan, a matter-of-fact 60-year-old who shuns publicity, would be the last to label herself a pioneer. Her efforts are grounded in pragmatic beliefs: that meritocracies are better for business and that letting talented women find employment is better for the economy. "I'm all for diversity—but diversity for deserving people," she says. Even as she helps guide Saudi women into roles they've never held before, from factory work to sales and management, she's careful to respect Saudi Arabia's deeply religious culture and traditions. Tom Linebarger, CEO of Cummins, one of OFC's longest-standing international partners, has worked with Olayan to hire Saudi women into engineering jobs. "She makes a constant push toward modernization and empowerment of women—from inside the system," he says. "She is one of the most courageous people I've ever met."

WHEN OLAYAN FIRST sought to integrate OFC in 2001, there was no playbook for a company like hers to hire women—and plenty of obstacles to doing so, since labor law and social customs left a lot of room for interpretation and confusion. In deeply conservative Saudi Arabia, women are expected to be covered in an abaya (a long robe) and a head scarf in public, and they don't traditionally mix with men they aren't related to. Cultural norms like these had largely limited female employment to the few industries that were clearly open to women: health care, education, and banking, all industries in which they theoretically would interact only with one another.

OFC's activities didn't fall into such neat buckets. It's a sprawling holding company, whose activities run the gamut from investing and real estate to the manufacture and distribution of foreign-brand cola, cookies, computers, and heavy equipment. (It includes wholly owned businesses and joint ventures: Nabisco, Xerox, Colgate Palmolive, and Burger King are among OFC's Western partners.) None of its companies was equipped to provide the required degree of segregation: Women would need their own restrooms, canteens, prayer rooms, and workspaces, not to mention transport to and from the job, since Saudi women aren't allowed to drive.

With so many factors to weigh, the hire Olayan truly needed was a woman who could hire more women. Ultimately she chose Hana AlSyead, a computer scientist and systems engineer who trained in Boston and rose through the ranks in the (relatively coed) Saudi subsidiary of Citibank. AlSyead embraced the challenge, and within a year

OFC had 21 female employees. Most of them were disadvantaged women whom OFC hired to sew surgical gowns at Enayah (its joint venture with Kimberly-Clark and another Saudi firm). These seamstresses made history: They were Saudi Arabia's first female factory workers.

Since then a transformation has swept through the kingdom: In shops, offices, kitchens, and manufacturing plants, women in Saudi Arabia have flooded into private-sector work, their numbers rising from 23,000 in 2004 to 48,000 in 2009 to over 400,000 in 2014, according to Saudi government statistics. The growth has been driven by mass education (women dominate the kingdom's ranks of university graduates), economic necessity, and gentle nudges from the government.

Still, overall only 19% of Saudi women work, according to the World Economic Forum. Many of the jobs recently opened to women are ones that bafflingly didn't belong to them to begin with—like tending the kingdom's lingerie shops. Numerous professional roles, including a majority of those at OFC, remain largely unavailable to women (or "ladies," as managers at OFC often call them) because the jobs demand driving, heavy lifting, or frequent public interactions with males. According to the WEF's most recent Global Gender Gap report on economic opportunity for women, Saudi Arabia ranks 137th of 142 countries—despite all that recent progress.

TO UNDERSTAND how Olayan rose to power in such an environment, it helps to know the story of her father and mentor, Suliman. Born in a small Saudi trading town, Suliman learned English, which proved indispensable when Western firms arrived to tap the region's oil riches. He spent some successful years at oil giant Aramco before realizing he could do even better business by providing such firms with equipment and provisions. In 1947 he founded the company that became the Olayan Group, which gained a reputation as a favored "local partner"—a requirement at the time for all foreign companies.

Lubna grew up in cosmopolitan Beirut, the youngest of four siblings, three of them girls. Suliman was a stern but invested father who closely tracked his daughters' academic performance and imparted lessons of financial management. Lubna spent nine years in the U.S., a period to which she credits her freethinking ways. She studied at Cornell University and then at Indiana University, where, alongside her sister Hutham, she earned an MBA. (Hutham is now CEO and president of Olayan Group's U.S.-based investment arm.)

Lubna went on to work for J.P. Morgan and met her husband, John Xefos, a lawyer, before moving to Riyadh in 1983 to continue her banking career. Suliman was living there by then as well, and he happened to need an executive assistant. The two worked closely together for almost two decades; in 1986 she was named CEO of OFC, which was then Olayan Group's industrial holding company; her responsibilities expanded in 1999 when the company merged with the group's Middle East consumer arm. (Suliman died in 2002.)

As an executive, Olayan has made her gender almost a second thought among her peers. "Even my most chauvinist of Saudi friends and clients have great admiration for the way that she manages her companies," says Bernd van Linder, CEO of Saudi Hollandi Bank, the first Saudi-listed company to include a woman on its board. (That woman is Olayan.) "She is respected as a person rather than as the first Saudi woman to do this or that."

Olayan dislikes being the center of attention. It's telling that in OFC's 150-page networking directory, in which a page with a photo and biography is devoted to each manager, Olayan's entry falls in the middle of the book, per alphabetical order, on page 80.

It was also telling that when I traveled to Saudi

Olayan speaking during this year's Egypt Economic Development Conference. Her arguments for encouraging women to work are based in pragmatism: letting talented women find employment is better for the economy. "I'm all for diversity—but diversity for deserving people."

AMR ABDALLAH DALSH—REUTERS

NO. 16 LUBNA OLAYAN

WOMEN AT WORK FOR OLAYAN

Until 2001, Lubna Olayan was the only woman working for the OFC conglomerate. Today there are more than 400, at 28 of its 30 companies, including these:

ENAYAH (joint venture with Kimberly-Clark)
In 2002 this medical supplier hired 18 seamstresses to sew surgical gowns; they were Saudi Arabia's first female factory workers. There are now about 100 at the company.

SAUDI XEROX AGENCIES
In 2014, Saudi Xerox won OFC's Diversity Index award; among its 40 female employees is a marketing executive.

COCA-COLA BOTTLING CO. OF SAUDI ARABIA
Three years ago this affiliate had no female employees; now they work in IT, finance, accounting, and legal, among other departments.

NABISCO ARABIA
The Middle East's primary supplier of Ritz crackers and Oreos launched a woman-only production line in 2013; it also employs two female machine operators.

Arabia in late July to interview her, Olayan was not there. (She had traveled abroad to attend the birth of her first grandchild, a hitch in planning that she apologized for repeatedly.) We ultimately connected via videoconference—a screen and thousands of miles between us. That we were having a meeting at all, she joked, was my good fortune for having contacted her while her longtime colleague Serene ("She says no to everything") was on vacation.

When Olayan discusses gender issues in her own career, she focuses on the light and superficial. Hardship? There were the visits to the company's factories, which had no women's bathrooms. Not being allowed to drive or mix in public with men? That may have been a blessing, especially for a working mother with three daughters: "Everyone had to come to me. Time was my most important asset."

Asked whether she felt respected as a female leader, she seems taken aback. "Respected? In Saudi society, women are extremely respected. I never had an issue with that at all." She really didn't think in gendered terms, she says; she was "more concerned about being the daughter of the founder and therefore needing to perform better than others so as not to give the impression of nepotism."

Still, Olayan has a complicated relationship with her home country. In 2004 she became the first woman to give the keynote address at the Jeddah Economic Forum, a high-profile Saudi conference that drew luminaries like former President Bill Clinton and Turkish Prime Minister Recep Tayyip Erdogan that year. To a gender-segregated audience, Olayan delivered "A Saudi Vision for Growth"—a 15-minute speech calling for a prosperous, diversified economy that included "more jobs and career opportunities for women." Yet her message was quickly overshadowed: Her head scarf had slipped slightly during her speech—a cultural affront, however inadvertent, that riled the country's conservative elements and dominated national headlines for days. Olayan looks back on the event with disgust and a sense of loss. "I was so proud of that speech," she says, noting that it still holds up.

Today Olayan lives in that world—but also apart from it—in Al-Bustan Village, a gated compound on the outskirts of Riyadh that OFC built to be a premier oasis for Western expats. (Such compounds are common in the kingdom.) Here, women can swim outdoors, exercise in coed workout facilities, and walk around the sprawling campus without an abaya. Olayan, who is waiting for her home in Riyadh to be refurbished, temporarily resides in one of the community's 608 villas and is often seen biking around its campus. As we drove up, my OFC host explained, "Beyond this gate, it's like you're in another country."

THIRTY-FIVE MINUTES away in central Riyadh is OFC's headquarters, a discreet multistory structure with minimal signage. Today it teems with more than 300 head-office employees whose diversity is staggering by any standard, a mix of men, women, Saudis, and foreign nationals representing 23 different countries. Men and women participate in meetings together; some women work in their abayas and head scarves, others in conservative Western dress. English is the working language, and employees of all ranks are addressed by their initials, a time-saving practice that dates back to the firm's early days. Olayan is known as LSO.

By all accounts Olayan is a caring but demanding boss. She wakes early, travels often, and likes to sleep on decisions, which she makes by consulting as many people as possible—she talks with some of her managers several times a day. That she is encyclopedic in her knowledge of OFC's manifold holdings and extremely detail-oriented is both dazzling and wearying to employees. (She even had a hand in choosing the pool furniture at Al-Bustan.)

Those qualities also show up in her considerable board and philanthropic work. Rafeal Reif, the president of MIT, sits on the Schlumberger board with Olayan and marvels at her mastery of individuals and personalities alongside the big geopolitical picture. That mental nimbleness is "an asset and a gift that few people have," says Reif. "Lubna reminds me of nobody."

Reif also remarks on Olayan's ability to lead

FEEDBACK *erika_fry@fortune.com*

quietly—to direct and drive the conversation not by dominating it, but by chiming in with important ideas. That distinction seems particularly important to Olayan. When asked about her relationship with power, she says the term has a negative connotation for her—she prefers "influence," which she describes as more important than power and as a sort of currency earned. "The more challenges you face in life, the more of life you experience—this lived experience gives one the 'influence' to impact others' lives," she says.

Plenty of challenges loom for OFC. Foreign companies can now operate independently in the kingdom without a Saudi partner. And a booming economy—between 2010 and 2014, Saudi Arabia's non-oil sectors grew at an average annual rate of 7.2%—with a rich and relatively young population has made the country a magnet for Western firms facing slow growth at home. All this means the environment has grown far more competitive for OFC.

The company also faces workforce changes that go beyond gender diversity. For years, Saudi firms like OFC imported most of their talent; roughly 85% of the kingdom's private workforce is foreign, while many Saudis remain unemployed. The government wants to reverse the situation through "Saudization," which requires companies to meet quotas in local hiring. Though OFC exceeds its quota, managers at the firm consider it to be their greatest challenge: For many jobs, hiring Saudis—who often require training and who by law are paid considerably more than expats—is expensive.

BY 2011, OFC HAD INTRODUCED female workers into its consumer-goods businesses, food service, packaging and distribution, even construction. Still, total female headcount hovered around just 1% of OFC's workforce. Eager to make faster progress, Olayan launched the Olayan Women Network, an internal group designed to "keep an eye on all issues females were facing" and help nurture their careers. She eventually set a new target: Olayan wanted 1,000 women employees by 2016, in all 30 of OFC's companies, at all levels of the organization.

This was not universally welcome news. Asadullah Sherazee, the general manager of OFC's Coca-Cola Bottling Co. of Saudi Arabia, recalls that when Olayan approached him about hiring female employees—"Coke says the workforce should be 40% women. You're at zero," she told him—he had all the typical concerns: the cost of women-only spaces, fears about legality, how they'd fit in.

But orders were orders. Sherazee, a Canadian of Pakistani origin, worked with his staff to set up the accommodations that have been installed across other OFC companies—the female prayer room, and the partitions in offices and on factory floors to give women privacy in line with labor regulations. Three years later his business has 30 female employees, including 18 who work on an all-female bottling line, many in burkas. He's tickled with the results, which he tells me about over mid-morning Cokes with his female HR manager, Ghadah AlSous. He now sees a strong business case for hiring women: "They are very productive, very conscientious, and very much on time... We're looking for more."

Genuine delight and surprise about what Saudi female employees could do was a reaction I encountered more than once at OFC. "We're living a social experiment," says Khalid Alkhudair, CEO of Glowork, a female recruiting company in the kingdom that has helped place 26,000 Saudi women in jobs since 2011. AlSyead says that issues arise only occasionally: Once, for example, a male job applicant walked the other way when he encountered one of OFC's female HR recruiters. She also says that Saudi managers are often more comfortable dealing with female talent than are expats, who tend to fear violating cultural norms.

There are now women at all but two of the conglomerate's companies. Though AlSyead says reaching Olayan's 1,000-woman goal in 2016 is statistically impossible, she touts the company's milestones: It has hired the first-ever female worker in the Saudi city of Yanbu, for example. And she's especially proud of having placed a Saudi woman in a sales role for a distributor of Scania—a company that makes long-haul trucks. She's now focused on keeping OFC's female talent—many firms try to poach, she says—and helping them develop their skills.

Olayan too remains very involved, regularly asking about her female employees' concerns and challenges and inviting candid feedback. AlSyead tells a story about a time when Olayan got input of a less amenable kind, when a handful of ladies requested more vacation and reduced working hours. When Olayan asked them about their goals, they assured her they were ambitious: They wanted to be managers and executives. Olayan was bemused, but also a bit exasperated, and finally asked her colleagues, "Well, with all those vacation days, how do you expect to get there?"

"EVEN MY MOST CHAUVINIST OF SAUDI FRIENDS AND CLIENTS HAVE GREAT ADMIRATION FOR THE WAY THAT SHE MANAGES HER COMPANIES. **SHE IS RESPECTED AS A PERSON** RATHER THAN AS THE FIRST SAUDI WOMAN TO DO THIS OR THAT."

BERND VAN LINDER

CEO / **SAUDI HOLLANDI BANK**

ROSE MARCARIO

PRESIDENT AND CEO PATAGONIA

The Tao of Rose

Patagonia CEO Rose Marcario is leading the rebellious outdoor-clothing maker into a new era of growth while pushing it to be even more radical in its approach to planet-friendly business practices.

By **Ryan Bradley**

Photograph by **PETER BOHLER**

ROSE MARCARIO

PETER BOHLER—REDUX

Rose Marcario is recalling the year that she left her old life behind. "So it was, you know, an *Eat, Pray, Love* moment—without the eating and the love," she says.

Then she laughs, not so much at the joke but at herself and that period of her life—the weeks she spent meditating alone in Rishikesh, India, the temple town along the banks of the Ganges that the Beatles once visited and made famous. Marcario, 50, is telling the story of how she ended up at Patagonia, where she's now CEO. It's a roundabout tale that begins with her burning out on a private equity job in 2006 and ends with her here at Patagonia's headquarters in Ventura, Calif., north of L.A., leading the iconic outdoor clothing and equipment maker through the most profitable and expansive era in its history. Sitting in a small conference room near her desk—she has no office—and casually dressed in a Patagonia down vest with prayer beads on her wrist, she couldn't seem more at peace with her journey.

But back to the burnout and to India. It's key to understanding Marcario's nature and how she approaches the problem of running a company that sells outdoor apparel, sure, but would also like to help out with the minor task of saving the world.

By the time she bolted to Rishikesh, Marcario had been a practicing Buddhist for 20 years. She grew up among Italian Catholics on Staten Island and then, after her parents divorced, in Southern California. Her manner of speech and general demeanor are a mix of these different worlds: a laid-back SoCal lilt bundled into direct, no-nonsense sentences. With the practice of Buddhism, she says, "comes looking really deeply at things, looking beyond just your generation, looking at how your actions impact broader groups of people." This way of thinking did not match up with the short-term focus of her daily grind.

Before joining private equity firm Capital Advisors as an executive vice president, she had worked at a couple of tech companies—including as CFO of General Magic, a spin-off from Apple that closed in 2002—and in all of those positions her job was to obsess over quarterly results, meeting demands of investors. It all seemed, to her, to fuel a level of greed and poor decision-making that was not just unethical but also bad for people and the planet.

As Marcario became more successful, she says, "I felt myself more and more divided from my values." She was learning more about herself through her study of Buddhism. "I felt like, 'Wow, I'm transforming as a person, but my work isn't reflecting that,'" she says. So she quit, went to the banks of the Ganges, meditated, and pondered what to do with her life. After some time in India and Nepal, she flew back to Los Angeles, not sure what was next.

A friend mentioned that Patagonia was looking for a CFO. By now it was 2008. Marcario was skeptical at first. Wouldn't jumping back into the same role at a different company really just be more of the

As part of its Worn Wear program, Patagonia employs 45 full-time repair technicians in Reno and sends a biodiesel-fueled repair truck (far left) around the country. The company's Black Friday ad in 2012 explained the environmental cost of producing one of its fleeces and urged shoppers to think twice before purchasing.

same? People around her whom she trusted told her that Patagonia was different. But how could she be sure? Then Yvon Chouinard called her up.

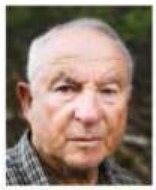
Chouinard describes himself as a "dirtbag at heart"—by which he means that he's a millionaire for whom material things hold little appeal. He founded Patagonia in 1970 as an extension of his business forging pitons and other rock-climbing tools. Chouinard never took Patagonia public, and his iconoclastic ways have spawned a kind of cult around him and his business—a company that tells its customers not to buy what it's selling and ends up more in demand as a result.

He mentions his dirtbaggery by way of explanation: It's a big reason he thinks that Marcario was intrigued enough to come onboard. "We have kind of a gonzo company," he says by phone from Wyoming, where he spends most of the summer fly-fishing. "I come up with crazy ideas. I have these eco things that people think I'm nuts to want to do, and she's right there on it, into it." Chouinard, 76, still comes into work when he's in town, and his beat-up wooden desk is across a small room from Marcario's. It's noticeable because it has no computer, only a Reagan-era landline phone.

Marcario says that from her initial conversation with Chouinard she was awed both by his commitment to his causes and trueness to himself and by how that was reflected in his company. This was something she aspired to—was in fact searching for. He is, she says, someone who "has exemplified living the examined life." Chouinard, for his part, says Marcario is the best leader his company has ever seen—including himself and the seven CEOs who followed him before her.

When Marcario arrived as CFO in June 2008, she launched a rigorous review of Patagonia's supply chains—looking for ways to streamline production and save costs by identifying waste, both financial and environmental. Instead of shipping items in a bulky box, for instance, Patagonia switched to mailing stuff in recyclable bags. She also pushed the company to cut back on its expanding selection of leisure wear and return the focus to its core outdoor products. (It was decided that men's capri pants, for example, were a mistake.) And she devoted a lot of resources to improving the company's e-commerce capabilities. Patagonia had historically grown sales carefully and methodically. The company owns only 32 stores in North America and 36 more worldwide. (The rest of its retail sales come from its many partnerships with other retailers). But since Marcario's arrival e-commerce sales have skyrocketed—though the company, which remains closely held, declines to disclose detailed figures.

It quickly became clear to Chouinard—who with



"ROSE UNDERSTANDS BUSINESS BETTER THAN I EVER DID, AND **SHE UNDERSTANDS THE NEED FOR REVOLUTION.** SHE'S THE ONE WHO'S GOING TO LEAD US THERE."

YVON CHOUINARD

FOUNDER **PATAGONIA**

WORN WEAR TRUCK: DONNIE HEDDEN—PATAGONIA ARCHIVES; AD: COURTESY OF PATAGONIA

ROSE MARCARIO

BUILDING A "B CORP" NETWORK

In 2011, Patagonia restructured, altered its bylaws, and went through a rigorous "impact assessment" to re-incorporate as a benefit corporation, or B Corp. Though there is no tax advantage to the status, the designation codified and made even more rigorous and transparent the company's efforts to be environmentally friendly. Being part of the B Corp network, now more than 1,300 companies worldwide, is perhaps the greatest asset. B Corp companies share information and resources and strive for goals beyond maximizing shareholder profit. Patagonia CEO Rose Marcario has championed this network, offering guidance to companies making the move. Here are a handful of the B Corp businesses that Patagonia has helped foster.

Method
San Francisco cleaning-product maker focuses on a "cradle to cradle" approach.

New Belgium
Colorado brewery recycles or composts nearly all its solid waste from brewing.

Warby Parker
New York eyewear company's glasses are carbon-neutral, and for every pair sold it donates another.

Ben & Jerry's
Vermont ice cream maker, owned by Unilever, uses locally sourced dairy and cage-free eggs.

Klean Kanteen
California reusable-bottle maker uses 100% renewable energy and 75% recycled material.

his family owns 100% of Patagonia—that he had found someone special in Marcario. She moved into the job of COO and then, in 2013, succeeded Casey Sheahan as CEO. She has continued to deliver results. Patagonia is on track to have the most profitable year in its history in 2015, according to the company, with expected sales reaching $750 million. All told, the compound annual growth rate since the year after Marcario joined as CFO has been 14%, and profits have more than tripled since her arrival.

If Patagonia were a larger company, Marcario's track record would surely merit a spot as one of the Most Powerful Women in Business ranked in this issue. The executives on our list typically run operations with billions in sales. But Marcario earns recognition for both her success and the outsize influence the Patagonia brand holds in the business world—as well as her role in extending that sway.

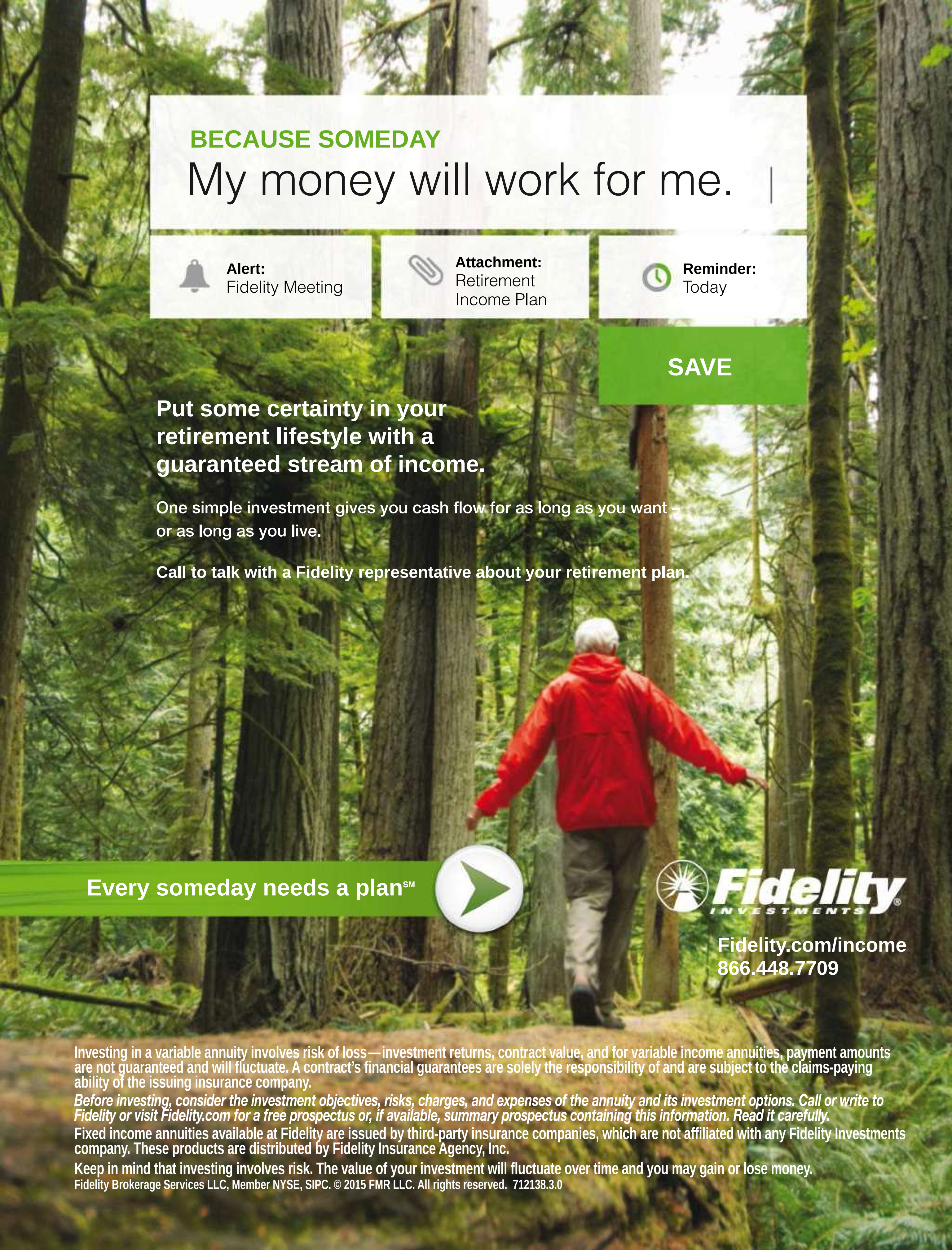
Her approach represents a middle way in which business success doesn't mean ignoring your community or leaving the planet worse off than you found it. "Rose is really a whole person, a well-integrated person," says Etsy's Chad Dickerson, a fellow socially conscious CEO (and fellow adoptive parent). She's "not just a business person—she brings a full perspective." Chouinard praises her in more radical terms: "She understands the need for revolution."

THE REVOLUTION BEGINS, on this morning, with a meeting of the Footprint Council. This group of 10 Patagonia leaders gathers once a month to scrutinize the company's "scale of operations"—which has doubled under Marcario. One striking fact: seven of the 10 executives in attendance are women. Indeed, Patagonia employs nearly as many women (755) as men (760) and is close to parity at the top. It also has some of the most forward-thinking child-care benefits around, including an award-winning on-site day care and preschool that opened in 1984.

The Footprint Council is the company's vehicle for staying on top of the rigorous sustainability goals it has set for itself. Four years ago Patagonia formalized its commitment to sustainable practices by becoming a B Corp—meaning that it is certified by a nonprofit called B Lab as a company committed to socially and environmentally responsible practices. What Fair Trade status is to coffee, B Corp certification is to enlightened companies.

Marcario keeps the council meeting moving at a steady clip. They look at the proposal for a study—commissioned by the council—to be conducted by UC–Santa Barbara graduate students about the possible effects of microplastics from Patagonia's recycled polyester materials entering the water supply after washing. Marcario asks about microfibers, which come from recycled poly, and how they fit

MARCARIO: MANDEL—AFP/GETTY IMAGES; KLEAN KANTEEN: MCT/NEWSCOM; OTHER PRODUCTS: COURTESY OF THE COMPANIES


BECAUSE SOMEDAY
My money will work for me.
Alert:
Fidelity Meeting
Attachment:
Retirement
Income Plan
Reminder:
Today
SAVE
Put some certainty in your retirement lifestyle with a guaranteed stream of income.
One simple investment gives you cash flow for as long as you want – or as long as you live.
Call to talk with a Fidelity representative about your retirement plan.
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Before investing, consider the investment objectives, risks, charges, and expenses of the annuity and its investment options. Call or write to Fidelity or visit Fidelity.com for a free prospectus or, if available, summary prospectus containing this information. Read it carefully.
Fixed income annuities available at Fidelity are issued by third-party insurance companies, which are not affiliated with any Fidelity Investments company. These products are distributed by Fidelity Insurance Agency, Inc.
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THE GOOD AND BAD OF BEING A B CORP

Pros:	**Do good, get good publicity.** "It's a certified opportunity to lead loudly, to be a part of best practices," said Andrew Kassoy, B Lab co-founder.	**A chance to set a high bar.** All prospects are self-tested and scored. If you don't qualify, the process can give you a sense of which gaps you need to plug.	**Broadening your mission.** B Corps must adopt governing documents that take into account all stakeholders–including customers—not just shareholders.
Cons:	**Lack of oversight.** Only 10% of applicants receive an on-ground verification visit. Some B Corp businesses may not merit the title, which could erode the brand.	**Investors could balk.** Some shareholders prioritize returns on investment over social good and may bail out of a company that puts the latter over the former.	**Bigger may not be better.** As companies grow in size and complexity, it can become more difficult to qualify to be a B Corp. *—Jonathan Chew*

into the larger problem of microplastics, particularly the small beads in soaps. The goal is to identify just how large the problem might be (the science so far has been spotty) and then define best practices, alert suppliers, and get ahead of the situation. There is a lot of talk about leading by example. "We aren't Nike," Marcario says at one point, musing about how her small company can maximize its influence. "But how do we make it uncomfortable for other businesses *not* to follow us?"

It isn't just that Marcario and everyone else at Patagonia think their processes and practices might be better; it's that there's real financial strength in numbers. Patagonia invests heavily in new manufacturing and sourcing processes, many of which don't make fiscal sense if they can't scale—which means that others must join to make them work. When the company released its Yulux brand of wetsuits, which uses a material made from a desert shrub native to the Southwest, it made its patented "biorubber" available to the whole wetsuit industry rather than keep it proprietary.

The same basic principle applies with B Corps. Patagonia has helped guide dozens of other companies through the process of becoming B Corps over the past few years, including Natura, a publicly traded company and Brazil's largest cosmetics manufacturer (see box "Building a 'B Corp' Network"). Marcario and Chouinard launched a VC arm of Patagonia called $20 Million and Change to identify and assist ecologically minded startups. One company Patagonia has funded makes skateboard decks out of melted-down plastic from discarded fishing nets.

Not that Patagonia is immune to problems. In 2011, the same year that it became a B Corp, the company audited its tier-two fabric suppliers in Taiwan and found that migrant workers in some factories were being held under forced-labor conditions. Patagonia partnered with Verité, a nonprofit that works to create fair conditions for workers globally, to create a comprehensive migrant-worker standard and explain it to all of Patagonia's suppliers.

Near the end of the Footprint Council meeting the group stares at a huge grid of pie-in-the-sky ideas—the company's "planetary goals." They stretch as far out as 2050 and include all the usual buzzwords about fair trade and sustainability, but also living wages for workers and influencing animal-welfare policy. "I look at 2050," Marcario says, "and I feel like it's way too late. Too late for the planet. Too late for us." They begin to talk

about issues they can latch onto quickly through Patagonia products. Each new material or source that comes up is the beginning of a conversation about better, more sustainable processes.

As Marcario plows through more meetings—on marketing, finance, employee activism—she makes it a point to give equal weight to two ideas: profitability and world improvement. Observing her dual focus, one is reminded of the Buddhist precept about two contradictory truths, and how it is possible for both to be true only after you have learned to hold them in your mind.

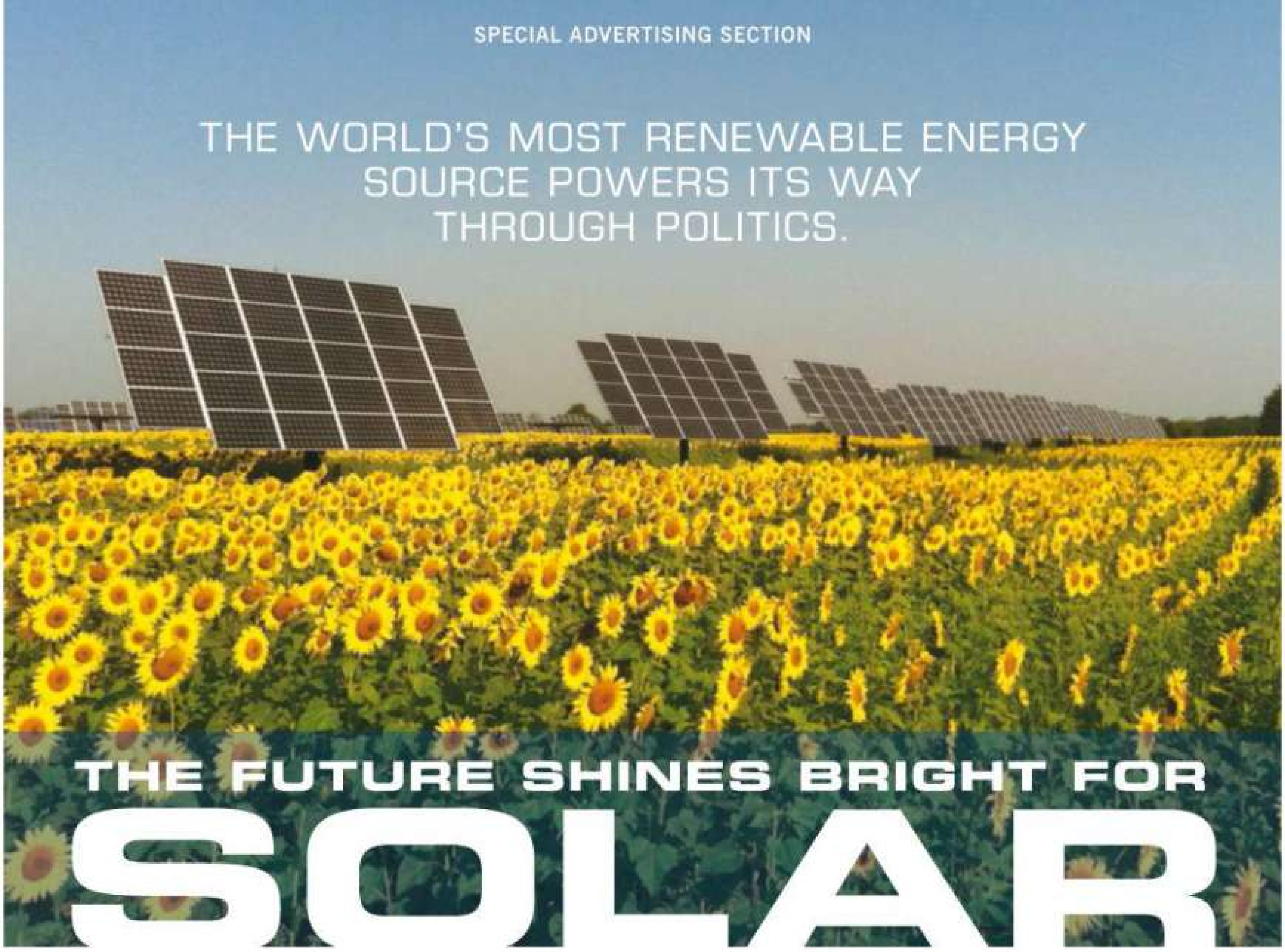
IT'S NOT EASY to think about the business and the holistic benefit at the same time, and Marcario is often tested. During the meeting on employee activism, she brings up an issue that recently arose at some stores in Japan, Patagonia's second-largest market after the U.S. All employees at Patagonia are encouraged to engage with their communities, either through volunteer work or by marching for a cause or hosting a meeting at a store (after hours). Activism is so ingrained in company culture that it hosts an annual conference, called Tools for Grassroots Activists, that brings together instigators of all types, including many who work at Patagonia.

The problem, Marcario says, is that sometimes this kind of corporate encouragement can send a confusing message to workers. What seems like a gentle push or show of support can, through a different lens, be interpreted as mandatory. In Japan a few stores had recently hosted civil-disobedience and nonviolence training before a protest at a nearby dam. (A recent Chouinard-produced film titled *Damnation* covers the environmental devastation wrought by dams around the world.) Some Japanese employees felt as though they had to get arrested to prove their loyalty to the company cause. "We should be asking them, 'What kind of activist are you?'" says Lisa Pike Sheehy, who oversees activism at the company. "What are the options, if not on the frontlines picketing, holding signs? Because not everyone is going to be comfortable being there." Marcario, agreeing, says they should explain this clearly, and if it takes a meeting after normal work hours, "we should pay for their time to stay longer and listen."

Patagonia's activist-friendly vibe can lead to unplanned endorsements. Perhaps the most visible ambassador for the Patagonia brand at the moment is a gay black man named Deray McKesson, who has emerged alongside the #BlackLivesMatter movement and now has 224,000 Twitter followers. His signature piece of clothing is a blue Patagonia down vest, similar to one that Marcario wears. The vest is famous enough to have its own Twitter handle: @deraysvest (though it has a mere 3,000 followers). He has said he wore it because it felt like a shield—he feels invincible in it. "I kind of feel like that when I wear my vest too," Marcario says. McKesson, a twentysomething former educational consultant, says he was absolutely aware that Patagonia was a good company when he bought the vest. "I knew they had a commitment to social justice," he says. But mostly he wanted something warm, light, and packable. He liked the fact that the company would repair the vest if it ever got damaged. "I just felt good about buying it," he says.

This sentiment is exactly what's so powerful about Patagonia's brand—the general good feeling—and why the company's SoHo store in New York City is now as prominent as its Boulder location, or why its brand ambassadors aren't only famous climbers and outdoor types but Alice Waters, the chef, as well. Activism is hip right now. But the last thing that Marcario wants is for her customers or employees to get too comfortable. "It's not about maintaining the status quo," she says.

Marcario's mission is to make the most of this moment. She wants to keep growing Patagonia to prove that her view of capitalism can work—that a company can achieve even more success when it thinks about future generations as shareholders alongside current investors. She says she will never work anywhere else. "This is my last stop," she says, chuckling again at the situation she finds herself in. "It's my way to keep myself from becoming so completely disillusioned, you know?"



THE WORLD'S MOST RENEWABLE ENERGY SOURCE POWERS ITS WAY THROUGH POLITICS.

THE FUTURE SHINES BRIGHT FOR SOLAR

WE'RE SEEING A TRAJECTORY FOR SOLAR that's going to follow the iPhone," says David Hochschild, California's energy commissioner. "Costs have been plummeting, innovation and scale are going up. Eventually everyone will have it."

Solar energy's explosion over the last decade would make any industry envious. Last year residential demand for solar energy expanded by 76%, and in Q1 2015 solar accounted for more than 51% of the nation's new electric-generating capacity.

Yet a few high clouds have appeared in this vibrant outlook, including the expiration of a federal 30% investment tax credit at the end of 2016 if Congress isn't persuaded to act, and increased opposition from state utilities that are losing market share. Some utilities have imposed surcharges on solar customers, while others are limiting the utility bill credit solar owners receive for the excess clean power they export to the grid.

For Rhone Resch, president and CEO of the Solar Energy Industries Association (SEIA), these challenges signal a call to arms for the industry. "Solar is disruptive the way Uber is disruptive,"

ON THE HORIZON FOR SOLAR IN 2020

LISA SALLEY
VICE PRESIDENT AND GENERAL MANAGER OF UL (UNDERWRITERS LABORATORIES), ENERGY & POWER TECHNOLOGIES

In the universe of solar power, look for these five significant developments occurring in the next five years, according to Lisa Salley, vice president and general manager of UL (Underwriters Laboratories), Energy and Power Technologies. This global safety science company supplies third-party evaluations and certifications to products and systems throughout the solar value chain.

1. Energy storage, currently a nascent but fast-growing sector, will be fully integrated into solar systems ranging from residential to utility-scale.

2. Battery technology and increased component efficiency—even in panels—will not only drive down prices but will also play a crucial role in advancing solar applications. "Inverters are getting smaller, faster, and smarter," Salley says.

3. Technology convergence, combining solar with other technologies and services—for example, demand response technology embedded in solar systems—will allow optimization of energy consumption and maximum savings to solar owners.

4. Solar is rapidly approaching grid parity. "It will start to become the energy generation means of choice, purely based on economics."

5. Watch utilities—many will find it attractive to climb on board with solar and other renewables and embrace hybrid systems and micro grids.

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"THE MORE EVERYONE ACROSS THE GLOBE HAS ACCESS TO ENERGY, THE MORE OUR ECONOMIES IMPROVE."

– LISA SALLEY, *VICE PRESIDENT AND GENERAL MANAGER OF UL (UNDERWRITERS LABORATORIES), ENERGY & POWER TECHNOLOGIES*

he says. "Solar companies need to recognize the important role that policy plays, at the federal, state, and local level, and participate in the political process. They need to be thinking about how we communicate as a community, the way the oil and gas or utilities industries do."

And it's not just the industry that wants solar: American citizens want it, too. It's their first choice for energy development, according to a recent Gallup Poll that found public support at 91%. The solar energy industry is also a powerful job creator, doing so at a rate almost 20 times faster than the overall economy. And solar's more affordable than ever.

"We need to debunk this myth that renewable energy is expensive," says Hochshild. Recent utility-scale projects are coming online at prices less than $.05/kwh (kilowatt-hour). "That's about as low as you can get. It's cheaper than a new coal or gas plant." The average cost of solar systems has plunged 50% in the last five years and continues to drop. And access to solar is expanding, thanks to innovative technology, new financing mechanisms, and government initiatives like one announced by the White House in July aiming to spur solar development for renters and low-income communities.

In solar energy's competitive environment, differentiation is based on far more than price. SunPower, founded by a Stanford University professor in Silicon Valley 30 years ago, prides itself on giving customers the most reliable, efficient, aesthetically pleasing complete solar solutions

on the market—many of which have received cradle-to-cradle sustainable designation. "The core of this company is unique innovation," says SunPower CEO Tom Werner, who cites Apple among its clients. "We have a unique solar cell with a proprietary architecture that produces more energy per footprint and lasts longer." SunPower also offers energy storage and management, putting it at the leading edge of an industry broadening its applications beyond energy generation.

A few elements are dragging down solar power's momentum, though—including the onerous expenses related to regulations, red tape, and requirements that vary from state to state. While they've abated in recent years, these soft costs remain more burdensome for solar than for traditional energy industries like coal. SEIA would like to see these issues addressed.

It's particularly difficult for players in a young industry experiencing such rapid growth. "Most companies don't yet have the built-infrastructure and experience to manage all the aspects of finance and leasing," says Andrew Hoechstetter, vice president of sales at Houston-based CT Lien Solutions (CTLS), which provides solar companies with lien-related services like searching and filing and assistance with compliance. "We have established expertise in government relations and keep our finger on the pulse of emerging laws and tax changes," says CTLS's general manager and vice president Julie Peck. "We stay ahead of that for our clients, so we know how to translate everything into their operational environment seamlessly."

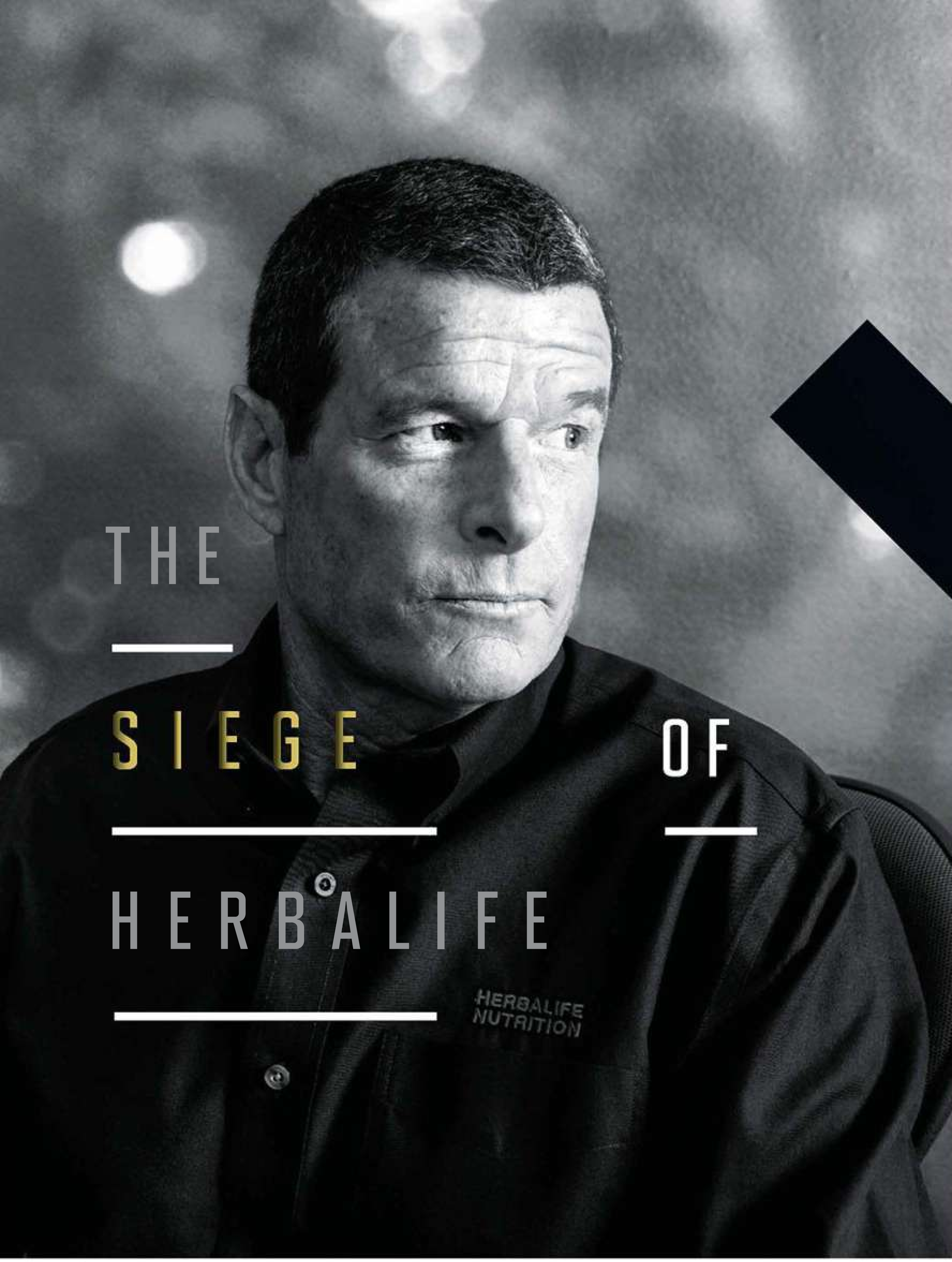
Despite challenges, the future of solar power is radiant. "Some very powerful sources prefer we not change how we've generated energy for the last century," says Hochshild, who considers his state "a global incubator" of solar; now it generates more than half of the nation's solar power—with 95% of installations today receiving no subsidies at all. "Having stable, long-term policy support means you can build a factory or invest in innovation. I strongly believe this needs to be an area of bipartisan agreement. It's good for every part of America. And I think it's trending in that direction." ●

SOLAR ENERGY'S EXPLOSION OVER THE LAST DECADE WOULD MAKE ANY INDUSTRY ENVIOUS.

Wolters Kluwer
When you have to be right

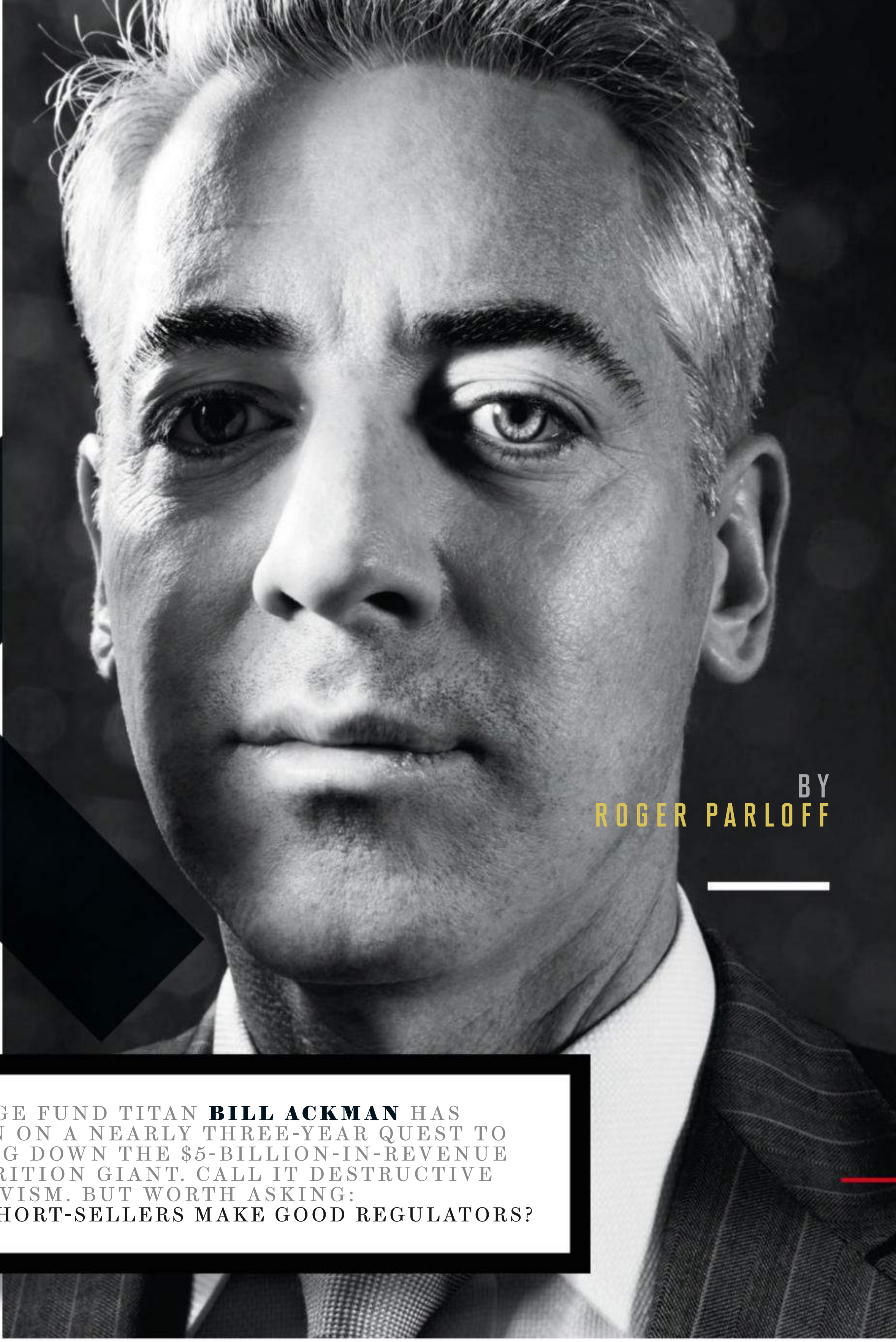
CT Lien Solutions

THE SIEGE OF HERBALIFE



MICHAEL JOHNSON, HERBALIFE CEO
"He's trying to totally demonize me and demolish the company. Who the hell does he think he is?"

PHOTOGRAPH BY **MICHAEL LEWIS**



BY
ROGER PARLOFF

HEDGE FUND TITAN **BILL ACKMAN** HAS BEEN ON A NEARLY THREE-YEAR QUEST TO BRING DOWN THE $5-BILLION-IN-REVENUE NUTRITION GIANT. CALL IT DESTRUCTIVE ACTIVISM. BUT WORTH ASKING:
DO SHORT-SELLERS MAKE GOOD REGULATORS?

BILL ACKMAN, CEO, PERSHING SQUARE CAPITAL MANAGEMENT
"They are fraudulently deceiving poor people into investing in a fictitious business opportunity."

At about 2 p.m. on Wednesday, Dec. 19, 2012, CNBC's Kate Kelly broke the news that billionaire Bill Ackman's hedge fund had taken a massive short position—about $1 billion worth, we know now—in the stock of a nutrition company called Herbalife. He considered it to be a pyramid scheme, Kelly continued, and would be presenting details the next day. Herbalife stock then fell 10% in six seconds, triggering circuit breakers and a temporary trading halt.

Ackman, now 49, is the brilliant, cocksure, media-savvy activist investor whose fund, Pershing Square, has harvested 21% average net returns since inception in 2004. The fund now commands nearly $19 billion in assets.

The day after the CNBC report, Ackman presented a "public short" the likes of which no one had ever seen before. A public short is a risky, fairly rare phenomenon in which an investor not only bets on a stock to go down—known as short-selling—but publicly announces that he has done so, explaining why. On this occasion Ackman delivered a 3½-hour, 342-slide webcast lecture at a 500-seat auditorium at the AXA Equitable Center in Midtown Manhattan in which he called the company the "best-managed pyramid scheme in the history of the world." He expected the stock not just to decline but to go to zero, he made clear. If his bet paid off, he'd donate his personal profits to charity, because he considered any proceeds from a corporation so villainous to be "blood money."

By the following Monday, Christmas Eve, Herbalife stock had fallen 42%, from $41.57, where it had stood before Kelly's report, to a low of $24.24, with the company having shed close to $2 billion in market value.

Herbalife might seem like an odd target for such venom. Based

OPENING SPREAD, ACKMAN: NEIL WILDER—CORBIS OUTLINE

Bill Ackman, left, seen in his Manhattan office in 2014, has averaged 21% net returns since 2004 in his Pershing Square fund.

CEO Michael Johnson, photographed in August at Herbalife's Los Angeles headquarters, joined the company from Disney in 2003, where he headed international operations.

THIS PAGE, ACKMAN: PETER YANG—AUGUST

PHOTOGRAPH BY MICHAEL LEWIS

in Los Angeles, it doesn't make cigarettes, sell alcohol, manage casinos, or emit pollutants. It's a 35-year-old, 8,000-employee nutrition company that sells 5,300 products in 91 countries, including weight-loss powders, vitamins, performance sports drinks, and a skin-care line.

It is remarkably successful. Its main product—composing 30% of its sales—is a meal-replacement shake powder, made from soy protein isolate, called Formula 1. Though many *Fortune* readers have likely never heard of it, its sales are more than double those of its three leading competitors—Ensure, Kellogg's, and SlimFast—combined. Herbalife makes 25 flavors of shakes, including piña colada in the U.S., paçoca—a peanut candy—for the Brazilian market, and borscht for China, and markets non-GMO, gluten-free, and low-glycemic versions too.

But Ackman wasn't going after Herbalife because it sold milk shakes. His issues stemmed from its being a multilevel marketing company, or MLM. MLMs distribute their products through independent contractors who are rewarded not just for selling the company's products but also for recruiting other distributors to do so, and for persuading those recruits to recruit still more distributors, and so on, in a pyramidal structure.

The danger with any MLM is that recruiting, not product sales, may become the raison d'être of the enterprise, which then devolves into a thinly disguised money-transfer game indistinguishable from the chain-letter scams of the 1930s—the paradigmatic pyramid schemes. Early participants make out like bandits, but later recruits are mathematically guaranteed to fail.

Some consumer advocates ardently believe that all MLMs, also known as network marketers, should be illegal. But they aren't. Since 1979, when the Federal Trade Commission blessed the business model of the home-products marketer Amway, MLMs have been considered legitimate so long as they enforce certain safeguards designed to guarantee sustainability. Today MLMs include such everyday names as Avon (No. 322

on this year's *Fortune* 500 list), Tupperware, Usana, Nu Skin, Primerica, and Pampered Chef—a unit of Warren Buffett's Berkshire Hathaway.

Herbalife is the largest public MLM by market capitalization and the second largest by revenue, after Avon. With sales of $5 billion last year, Herbalife would have just missed this year's *Fortune* 500, ranking at 522, were it not ineligible due to its incorporation in the Cayman Islands.

As big as Herbalife is, however, the New York–based activist is even bigger—a fact that has enabled him to launch a novel, for-profit species of holy war: one that, if successful, will enable him to slay what he believes to be a terrible dragon while netting his fund's investors more than $1 billion in profit.

Drawing upon bottomless resources and boundless self-confidence, Ackman has committed himself to destroying the company. In the nearly three years since his AXA Equitable presentation, he has denounced Herbalife and its executives in terms that no government authority ever has. It was "one of the great frauds of all time," he said at a public presentation; Herbalife CEO Michael Johnson was "running a criminal enterprise," he told Fox; company executives were "at risk of going to jail," he told CNBC.

He has hired lobbyists to alert community groups to the alleged dangers of Herbalife and has given those groups money to find victims and connect them to regulators. His agents have set up websites, taken out ads, posted notices, and set up 1-800 numbers. They have tracked down former Herbalife employees and distributors, looking for whistleblowers. They've solicited nonprofits, concerned citizens, and politicians—including three congressmen and a U.S. senator—to write the FTC and at least seven state attorneys general, sometimes without the letter writers even realizing that a hedge fund manager was the master puppeteer orchestrating the campaign.

Ackman urged PricewaterhouseCoopers not to sign Herbalife's financial statements. He has made presentations to the FTC, the SEC, the Canadian competition authorities, and U.S. federal prosecutors.

The FTC and SEC have, in fact, initiated investigations of Herbalife, and Manhattan federal prosecutors have made inquiries about the company or its distributors, Herbalife has acknowledged. But federal prosecutors have also examined the practices of some of Ackman's contractors, according to the *Wall Street Journal*, looking into allegations of market manipulation.

The attack raises two important questions for society. One is: Is he right about Herbalife being a pyramid scheme? That's important because if he is, all but a handful of companies in the now $34.5 billion MLM industry, affecting 18 million distributors, are almost certainly pyramid schemes as well. As it happens, we should get an answer to this first question soon, because the FTC, responding to pressure exerted by Ackman,

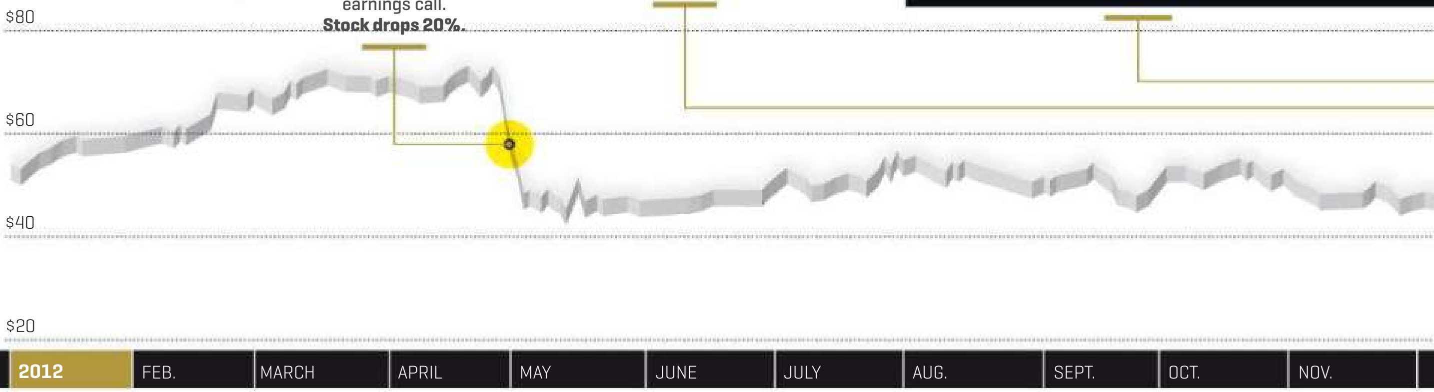
EINHORN: ANDREW HARRER—BLOOMBERG VIA GETTY IMAGES; CNBC: COURTESY OF CNBC; ACKMAN: SCOTT EELLS—BLOOMBERG VIA GETTY IMAGES

SCORECARD FOR A THREE-YEAR DEATH MATCH

MAY 1, 2012
Greenlight Capital's David Einhorn asks Herbalife probing questions at an earnings call.
Stock drops 20%.

DEC. 19, 2012
CNBC's Kate Kelly reports that Bill Ackman has amassed a major short position.
Stock drops 10% in six seconds.

DEC. 20, 2012
The hedge fund titan delivers a 3½-hour "public short" in New York. **By Dec. 24, the stock has dropped 42% from before the Kelly report.**



opened a formal inquiry into that question in March 2014—now 17 months ago.

The second and perhaps bigger question is: What if Ackman is wrong? One man's dragon slayer is another man's vigilante. Herbalife has had to spend almost $90 million defending against Ackman's attack so far, according to its SEC filings, while its executives, employees, and distributors have all been villainized, if not defamed. While activist investing was already controversial, Ackman has taken it into new terrain. Is it sound public policy to have freelance, for-profit billionaire regulators roaming the landscape, no matter how well-intentioned?

Conventional activists like Carl Icahn and Nelson Peltz buy shares and then "try to fix the company," observes one hedge fund investor. Ackman, by contrast, is trying to annihilate a company. "I've never heard of short-selling activism in my life," this investor says. "Are we comfortable that a private individual named Bill can try to put somebody out of business?"

Ackman rejects such criticism. "By shining a spotlight on fraud and abusive practices at Herbalife," he says, "we have helped protect consumers, potential distributors, and investors from losing their hard-earned money. We are extremely proud of the work we have done on Herbalife."

This is the story of Ackman's epic struggle to bring down Herbalife—a case study that, we believe, scholars, policymakers, and regulators will want to study and debate for some time.

For that matter, so might novelists, psychologists, and—if only they were still around—ancient Greek tragedians. Ackman's campaign long ago seems to have crossed over from investment strategy into a colossal hubristic quest for vindication. At this point one might ask: Is he trying to maximize his investors' return? Trying to protect huddled masses yearning to be free? Or trying to save face?

Perhaps the best thumbnail précis of this saga was provided by hedge fund manager John Hempton, who runs Bronte Capital, in what was actually a prognostication. Just a week after the campaign launched, he wrote in his blog, "It will be the hedge fund equivalent of Stalingrad. Someone is going to lose big. And the victor will be so bloodied that the word victory will sound hollow."

"WHO DOES HE THINK HE IS?"

If Ackman is the irresistible force, Herbalife CEO Michael O. Johnson is the immovable object. Johnson, who headed Walt Disney Co.'s international division before taking the reins at Herbalife in 2003, is a self-described "diesel"—a passionate nutrition nut and endurance athlete who often rides his bike 30 miles to work. In July, Johnson, now 61, completed his third Tour TransAlp, the legendarily grueling, seven-day, 550-mile stage race through the Alps during which cyclists traverse ascents totaling more than 60,000 feet. He's not a quitter.

With dark, close-cropped hair and pointy ears, Johnson looks like a cross between Lance Armstrong and *Star Trek*'s Mr. Spock. An avid skier, he went to college at Western State Colorado University in Gunnison, near Crested Butte. He

DEC. 24, 2012
Bronte Capital's John Hempton takes the other side, buying Herbalife shares.

JAN. 25, 2013
Legendary activist Carl Icahn has live phone-in spat with Ackman on CNBC.

FEB. 14, 2013
Icahn discloses 13% stake in Herbalife. **Shares surge 23%** after hours but finish the next day up just 1.2%.

APRIL 8, 2013
KPMG's Scott London, Herbalife's auditor, is arrested for insider trading, forcing KPMG to withdraw approval of the company's financial statements.

JUL 31, 2013
George Soros's fund discloses major stake in Herbalife.

JAN. 10, 2013
Herbalife presents its rebuttal to Ackman. **Stock still ends down for the day.**

CNBC: COURTESY OF CNBC (2); ICAHN: ADAM JEFFERY—CNBC/NBCU PHOTO BANK VIA GETTY IMAGES; LONDON: DAMIAN DOVARGANES—AP; SOROS: SIMON DAWSON—BLOOMBERG VIA GETTY IMAGES

then bounced around through a series of ventures, selling pre-Walkman tape players to skiers, aircraft hosings and couplings, and laser light shows before being tapped in 1986 to run the international division of Disney's home-video unit. That business took off, and he rode it up the ranks until he was heading the international operations of the whole company.

That's where he was when—to many scratched heads, he admits—he jumped ship to become Herbalife's CEO in 2003.

He's furious about Ackman's campaign, he says. "Wouldn't you be?" Johnson asks in one of our four interviews. "If you'd worked your tail off for years and years and years to build something—something you believe strongly in? Along comes a guy with half-facts and half-truths and a jaded point of view and starts not just shorting your stock but trying to totally demonize me and demolish the company. It's like, really? Who the hell does he think he is?"

Ackman, of course, thinks he's the guy in the white hat, protecting the downtrodden from the likes of Michael Johnson.

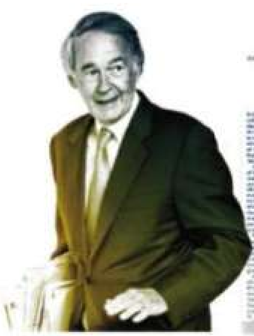
"It's entirely clear to us that this company is operating fraudulently," he tells me. "They are fraudulently deceiving poor people into investing in a fictitious business opportunity. That's illegal."

Six-foot-three, lean, fit, with salt-and-pepper hair, Ackman cuts an intimidating presence. He rowed crew at both Harvard College and Harvard Business School and is an excellent tennis player. He spits out words with machine-gun rapidity, and often with flesh-tearing trenchancy.

We spoke at his offices on the 42nd floor of a midtown building that offers panoramic views of Central Park. Just to the east is the residential tower where he recently bought a $92.5 million penthouse duplex. It's just an investment, he has said, because he considers it undervalued. In the corner of the conference room stands a striking memento: a rocket-powered ejection seat that once accommodated the pilot of a Canberra nuclear strike bomber of the 1950s. It evokes a crucial skill for a hedge fund manager: knowing when to bail.

Ackman's conspicuous success speaks for itself. Yet he is fallible. His first fund, Gotham Partners, had to be suddenly wound down in late 2002 after some illiquid investments left him unable to rebound from a handful of redemptions. He also lost big on stakes in Borders, J.C. Penney, and Target. One fund, devoted exclusively to Target options, lost 90% of its value at one point. Risk management is not his strong suit.

Ackman is astoundingly competitive. In high school he famously bet his dad $2,000 that he'd score an 800 on his verbal SAT. His father wisely let him off the hook the night before, and he scored a 780. And then there was a Hamptons bike ride of 2012, described by William Cohan in *Vanity Fair*, in which Ackman joined several hedge fund guys and serious cyclists on a 26-mile pleasure ride. Though out of practice, Ackman rushed out in front at an unsustainable pace, became dehy-



JAN. 23, 2014
Sen. Edward Markey (D-Mass) writes FTC urging inquiry. **Stock falls 7.4%.**

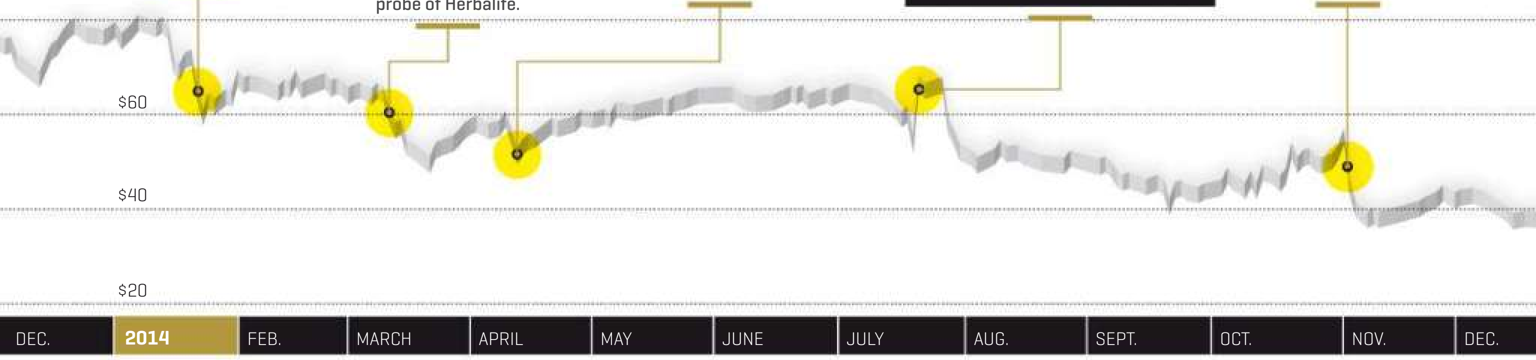

After Big Bet, Hedge Fund Pulls the Levers of Power

MARCH 10, 2014
New York Times publishes exposé on Ackman's hamfisted lobbyists. But days later, FTC starts formal probe of Herbalife.

APRIL 11, 2014
Financial Times reports that the U.S. Department of Justice has launched a criminal probe of Herbalife. **Stock ends down 14%.**

JULY 22, 2014
Ackman's presentation on nutrition clubs, featuring Christine Richard. Overhyped, it has opposite effect, sending **stock *up* 25%.**

NOV. 3, 2014
After 19 straight positive quarters, Herbalife misses guidance. **Stock drops 29% over next two days.**



MARKEY: J. SCOTT APPLEWHITE—AP; RICHARD: EDUARDO MUNOZ—REUTERS; HERBALIFE PRODUCTS: COURTESY OF HERBALIFE

drated, and had to be helped back, barely able to pedal due to excruciating cramping. One rider commented to Cohan, “His mind wrote a check his body couldn’t cash.”

In the siege of Herbalife, Ackman clearly did not anticipate the company’s staying power or the fact that a number of hedge funds would take the opposite side of his bet. The battle has taken a toll.

“If I were to assess the return on invested time, I would say it’s quite poor,” he admits. “Had we known in advance, it might have dissuaded us from making this investment.”

Yet he professes no regrets. “I’ve said publicly that if we are successful in getting this company shut down, it will be one of the most philanthropic things we’ve ever done. I will tell you, this is the most important story I’ve ever been involved with on anything ever. Okay? This is it.”

DISTRIBUTION CHANNEL ... OR SCAM?

Though personalities help explain the origins of Ackman’s campaign against Herbalife, it is the law that will declare the winner. And in a word, that’s murky.

There is no federal statute defining “pyramid scheme.” For years MLM critics have begged the FTC to draw some bright-line rules—but in vain. Such schemes are usually prosecuted by the FTC as an “unfair or deceptive act or practice.” If an MLM or its distributors have merely made some misleading claims, the FTC may fine the company and let it live to see another day. But if the commission finds that an MLM is a pyramid scheme—which is considered inherently deceptive—it must shut it down.

The best definition of pyramid scheme emerged from a 1975 case in which the FTC shuttered a cosmetics marketer called Koscot Interplanetary. The key feature is that a pyramid scheme pays its distributors rewards “for recruiting other participants into the program ... which are unrelated to sale of the product to ultimate users.”

So if an MLM were to pay its distributors, say, $150 for each new recruit it signed up, it would probably be a pyramid scheme. Few MLMs are so foolish as to do that. Instead, they typically pay a distributor—as Herbalife does—based on the products he orders, and on the products ordered by his first three levels of recruits, i.e., his direct recruits, his recruits’ recruits, and his recruits’ recruits’ recruits. (A distributor’s recruits and all their recruiting descendants are referred to collectively as his downline.)

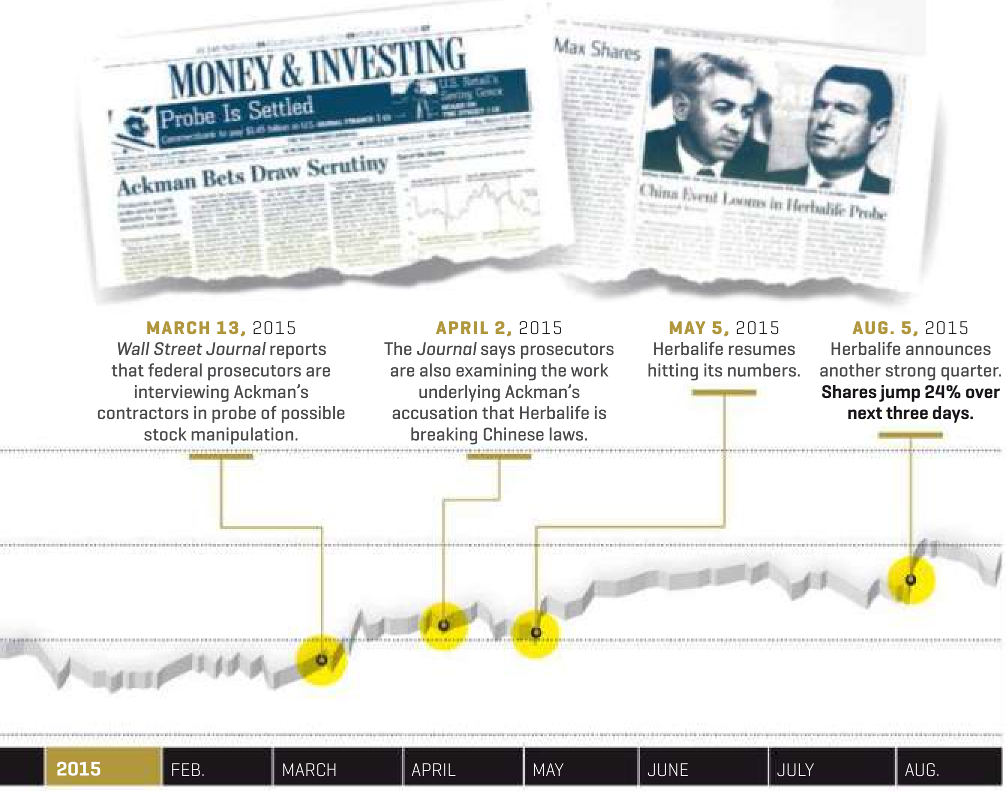
While it’s true, then, that no distributor is paid for recruiting as such, it’s also true that no distributor will ever achieve the upper echelons of an MLM’s compensation scheme, including Herbalife’s, without recruiting.

Further complicating the analysis is another striking feature of virtually all MLMs, including Herbalife. Whereas conventional businesses pay salespeople based on their sales, MLMs pay them based on their purchases (and those of their downlines). While the hope is that the products purchased by distributors eventually find their way to consumers or are consumed by the distributors themselves, it’s hard to be sure that they are.

If the products are not consumed but, rather, pile up in distributors’ garages, that means there’s no real demand for them; distributors are just buying them to manipulate the compensation plan, and the company is a pyramid scheme. A common feature of pyramid schemes is “inventory loading,” where new distributors are pressured to buy more product than they can resell or consume.

While judges and economists have proposed other definitions, most boil down to this: The more genuine a company’s product, and the more genuine the consumer demand for it, the less likely it is that the company is a pyramid scheme. With a pyramid scheme, the product is little more than a fig leaf camouflaging what is, at its core, an elaborate chain letter.

When the FTC ruled that Amway was legitimate in 1979, all other MLMs took steps to make them-



selves look like Amway—at least on paper—and an industry exploded.

In recent years, however, with consumer advocates protesting that the industry is rife with pyramid schemes, several market leaders have sought to disassociate themselves from the pack. Tupperware quit the Direct Sellers Association in 2006, and Avon dropped out in 2014. (Both declined to be interviewed for this article.)

In my conversations with Herbalife CEO Johnson he repeatedly told me variants of this sentence: "When I took over in 2003, Herbalife was a multilevel-marketing company that sold nutrition products. Now it's a nutrition company that uses multilevel marketing as its distribution channel."

The outcome of Ackman's assault will likely hinge on how persuasively Johnson has effected that inversion. And here's the rub: Ackman's case against Herbalife might once have stuck. But Johnson has made key changes to Herbalife during his 12 years there. The question is whether the great white whale Ackman is so doggedly pursuing still exists.

"WHY WERE THEY SO FAT?"

In February 1980, a charismatic 24-year-old named Mark Reynolds Hughes founded Herbalife. In the beginning Hughes, a ninth-grade dropout, sold weight-loss products from the trunk of his car, according to company lore. His main product was Formula 1, which then came in one flavor: vanilla.

In his product pitches he often referred to his mother's death, when he was a teenager, from pharmaceuticals a doctor had prescribed to combat her obesity. The story wasn't true, according to a 2001 *Los Angeles Times* article by Matthew Heller. Hughes's mother was never overweight, and she died from an addiction to prescription painkillers.

What was true was that Hughes overcame enormous adversity and was utterly self-made—factors that earned him the love of other distributors, many of whom came from the wrong side of the tracks and who became wealthy beyond their dreams by reciting Hughes's scripted pitch formulas.

By 1985, Herbalife had grown to about $300 million in sales, and Hughes was living in a palatial Beverly Hills home with his second wife, a former Swedish beauty queen. That year the company became the subject of a CNN series that highlighted dubious medical claims distributors were making about Herbalife products. The California attorney general sued the company, and a Senate subcommittee held a hearing.

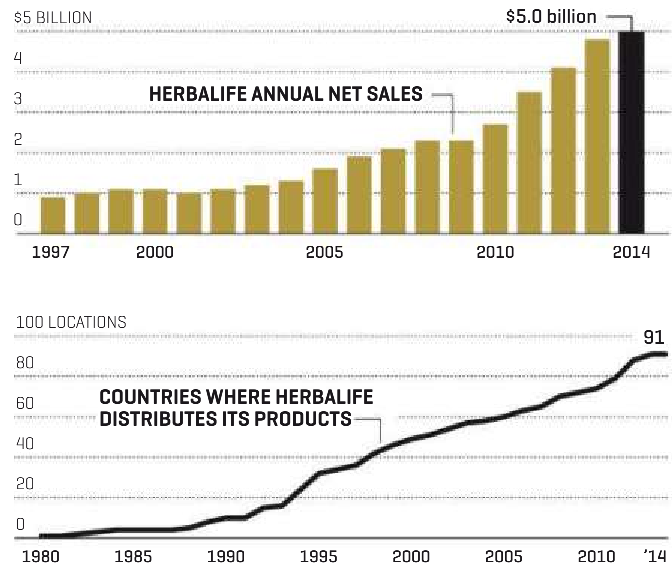
The 61-year-old Johnson, training near his home in Malibu, recently completed his third Tour TransAlp, a 550-mile, seven-day race across the Alps.

Hughes, just 29, came to the Capitol in a splendid suit, with a bouffant hairdo reminiscent of Las Vegas singer Wayne Newton (who had performed at Hughes's second wedding). Proudly displayed on his lapel was the Herbalife distributor's trademark, two-toned icebreaker: a button reading LOSE WEIGHT NOW: ASK ME HOW.

After listening to tut-tutting testimony from the committee's medical experts, Hughes's rejoinder seemed to leave the senators agape. "If they're so expert in weight loss," Hughes parried, "why were they so fat?"

His scrappy performance energized his loyal distributors. But the company paid an $850,000 fine to the California attorney general the following year, and Hughes began seeking a lower profile for his company.

HERBALIFE'S GROWTH, BY THE NUMBERS



Hughes wrote for Herbalife a comically complex, 27-page compensation plan. Such impenetrability is typical of MLM remuneration schemes. Critics say these are intended to perplex the recruit, leaving him no choice but to trust what the recruiter tells him. Defenders of the Herbalife plan say its complexity arises from efforts to reward diligence, punish laziness, and ensure fairness.

The plan created nine main levels of distributor. A distributor advances up the ladder by amassing "volume points," which are determined by his purchases and those of his downline. The first four levels buy product at discounts that range from 25% to 42% off suggested retail price (SRP), and if they earn money, it is by reselling products to customers at a markup—ideally at SRP.

Herbalife maintains that most of these lower-level distributors have not joined for the "business opportunity" but mainly because they want to buy the products for their own use at discounted prices. (Ackman will later reject this notion, insisting that these distributors are pursuing the business but failing.)

At level five, a crucial dividing line, distributors bump up to a 50% discount off SRP but, more important, become eligible for 5% "royalty overrides"—payments from the company—for purchases made by the first three levels of their downlines. At level seven they begin accruing additional bonuses.

The highest tier of Herbalife's compensation ladder, level nine, is called president's team. Only a tiny percentage of distributors reach this level, though precisely how tiny is a matter of dispute. (In 2014 in the U.S., there were just 548 president's team members out of 72,000 pursuing the business, and out of 554,000 total distributors.) An elite few president's team members attain still higher titles, becoming members of either the chairman's club (of which there are now just 48 out of 4.1 million distributors worldwide) or, most exalted of all, the founder's circle (just eight).

Top-tier distributors are also eligible for the subjective and lucrative Mark Hughes bonus. In recent years these checks have ranged from $10,000 up to, on one occasion, $2 million.

It has always been hard to make money as an Herbalife distributor. Even by the company's calculations only 3.7% of those pursuing the business in the U.S. grossed royalties of more than $25,000 in 2014. (That number excludes income distributors may make from retailing, but also fails to take into account any business expenses they may incur.) In addition, even by Herbalife's numbers, more than half of all money paid to distributors goes to the top 1%. Ackman will later

PHOTOGRAPH BY MICHAEL LEWIS

argue that a system so slanted toward rewarding the highest tiers—attainable only through recruiting—must be a pyramid scheme.

THE "SHAKE GUY" AT DISNEY

In May 2000, Mark Hughes, 44, was found dead in his bedroom. An autopsy blamed a toxic mix of alcohol and doxepin, an antidepressant he'd been prescribed as a sleeping pill.

He left a minor son; an underwear-model fourth wife; $100 million worth of homes in Beverly Hills, Malibu, Benedict Canyon, and Hawaii; and a company in disarray.

In 2002 two private equity firms—W.H. Whitney and Golden Gate Capital—swooped in to take the company private, paying just $347 million. They went looking for a turnaround team to spruce it up and take it public again.

A headhunter approached Michael Johnson, then in his 17th year at Disney. He was known there as the "shake guy," since he would often replace breakfast or lunch with a blended concoction of Odwalla, protein powder, and ice.

"I basically hung up on her," Johnson recalls. "Like many people, I had an impression of Herbalife that was not correct."

But the private equity guys promised him he would be in control, stressed that it was about nutrition, and offered him a slice of the company. (Since taking over, Johnson has made $163.5 million from the sale of stock and options.)

In April 2003, Johnson made the move. "It was very, very rough," he says of the transition. "There were a lot of issues I didn't understand. A language was spoken that I didn't get."

Johnson tried to quickly launch a new product without consulting the distributors. "It landed with a thud," he recalls. He hadn't understood the distributors' power at the company.

And they deeply mistrusted him. In the three years since Hughes's death, four CEOs had already come and gone. The distributors' attitude, Johnson recalls, was "Who's this guy? What does he know? A lot of them felt that when the company went public I would exit."

Distributors weren't employees, so if they misbehaved, they couldn't just be fired. The company could annul their distributorship, but that meant forfeiting a business the distributor had built over years. If expelled, the distributor might take his whole downline—sometimes thousands of people—to another MLM.

Johnson began learning about lawsuits he hadn't known about. One involved a "lead-generation" business, called Newest Way to Wealth, which was run by six distributors. Top Herbalife distributors ran several dozen such side businesses at the time.

They worked like this. The business would run generic TV ads touting business opportunities where you could "work at home." The contact information for those who responded was then sold to lower-level distributors in the top distributors' downlines. They, in turn, would contact the prospective recruits and send them a video that showed testimonials of top distributors describing astounding wealth they had purportedly amassed in very little time and with no discernible skills.

If a prospect took the bait, joining Herbalife, he'd then be told that, to effectively compete, he really needed to buy a series of business tools sold by the same business—leads, a merchant account, a website, back-office software—at what might be exorbitant prices. Often the recruit was also pressured to qualify quickly for the level-five distributorship, which meant buying around $3,000 worth of products in a month.

Aside from the sleaze, the quick $3,000 purchase looked like inventory loading, characteristic of a pyramid scheme. It also typically rewarded the recruiting distributor with a quick $150 pop in his royalties (5% of $3,000), suggesting that maybe Herbalife was paying for recruiting after all—another red flag for a pyramid scheme.

Herbalife shut down Newest Way to Wealth in 2002, before CEO Johnson was hired, and reached a tentative settlement of the suit a few months after he got there.

"There were practices that were taking place that were legal, but I'm not sure they fit what we wanted to be as a company," Johnson says.

That fall, he considered quitting. "I had some ideas in my head that maybe I wasn't right for this job," he admits. He went to see his mentor, Jerry Perenchio, who was then chairman of Univision. Perenchio asked him a series of rhetorical questions, Johnson recalls: "How many people get a billion-dollar platform? What's your title over there? Who's the captain of the ship? You can stick your tail between your legs and go back to Disney, or you can go in there and exercise your desires and will."

"I literally went back to the office that night," Johnson recounts, "and wrote a business plan for the company."

The plan was about product, brand, image, and the business opportunity. At the time less than 1% of the product was being manufactured in-house. The company needed its own upgraded manufacturing facilities, he felt, plus labs to ensure that the products really contained the herbs the labels claimed they did. (After investing hundreds of mil-

Herbalife nutrition club owner Edgar Montalban, shown in June 2013, prepares a meal-replacement shake in Queens, N.Y.

SCOUT TUFANKJIAN—THE NEW YORK TIMES/REDUX

lions of dollars, the company today has both, manufacturing in-house 58% of its products.)

To tout the brand, Johnson wanted to sponsor sporting events, teams, and star athletes. (It now sponsors more than 200 of them, including Cristiano Ronaldo, the Portuguese soccer star.)

To cultivate Herbalife's image Johnson wanted to consolidate its then haphazard charitable giving into a foundation. (Today, through its Casa Herbalife program, the foundation runs 101 orphanages in 51 countries.)

Finally, and most important, Johnson wanted changes in the way the business opportunity was pursued. That meant curbing some practices while also embracing positive ideas being urged by other distributors, he says.

At a videotaped global management retreat in June 2005, viewed by *Fortune*, Johnson appeared to walk a tightrope, discussing the need for these changes while trying not to alienate powerful distributors. "Those of you who have been around," he said at the meeting, "know that lead generation is a source of many evils as well as a source of many opportunities. It puts distributors in debt up to their ears.

"I don't want to say all systems are bad because there are great systems out there and they do great things," he continued later in the speech. The problems arose, he said, "when that web system starts making false promises, claims, and hopes for product, for money, for recruiting, for customers, for pyramiding, all those things."

Johnson also wanted to embrace changes being urged by two top distributors, which were designed to reduce the high rates of turnover then being experienced among level-five distributors—those beginning to pursue the business. At the time nearly 75% of them were quitting after just a year. He wanted new distributors to be permitted to achieve level five more slowly and organically, so they wouldn't have to buy $3,000 worth of products before they had any retail customers to sell them to.

"In the old days," Johnson explained at the 2005 retreat, "distributors would say, 'Go build that downline as soon as possible'... That works for very few people... That's a lottery ticket. So the best way to build this business... is to build it through retail and retention, and recruiting will come."

The company phased in changes. It rolled out its own online software tools, supplanting those sold by distributors. Herbalife charged less and could exercise control over content.

Though it did not ban lead generation—"There's nothing inherently wrong with leads," company president Des Walsh insists in an interview—it phased in rules that were supposed to curb abuses. Over time, most top distributors exited that business.

The rule changes easing the qualification hurdles for level-five distributors were introduced on a test basis in Russia in 2007, and then globally in 2009. As a result, according to statistics provided by Walsh, the percentage of U.S. level-five distributors staying more than a year improved from just 28% in 2002 to 55% when Ackman launched his campaign in 2012—to 58% today.

Purchasing patterns also changed, these statistics show. Throughout the Johnson era, the size of the average purchase has been getting smaller, while the number of orders has been increasing.

Though the impetus for the changes was apparently not regulatory, its impact could be. While inventory loading seemed like a plausible charge when new recruits were being pressured to buy $3,000 worth of products in a month, it seems less so in a company that, since 2007, has actually been exhorting new recruits to slow down their purchasing.

"*WE'RE* THE CATALYST"

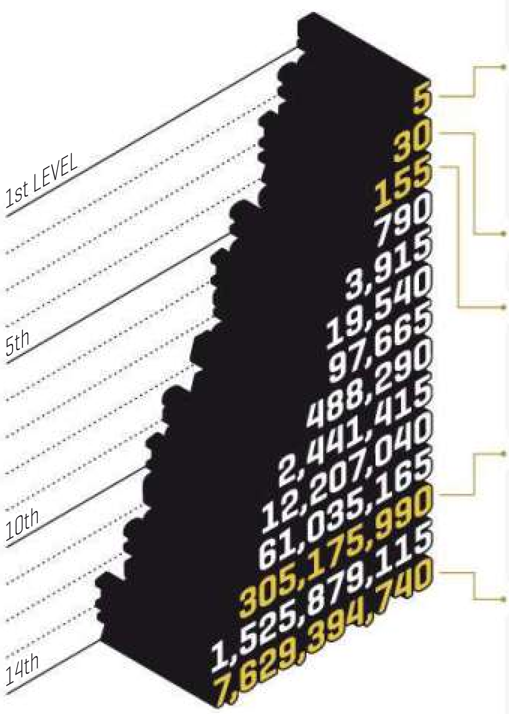
In 2006 an Herbalife distributor introduced nutrition clubs into the U.S., a concept that arose in Mexico. The way they worked was that a distributor invited customers into a commercially leased space for a small admission fee, usually $5. The charge entitled the customer to consume on premises servings of three prepared Herbalife products: a shake, an aloe drink, and a tea. The club owner would monitor the customer's progress toward his weight-loss goals, and the customers encouraged one another, as they

might at a Weight Watchers meeting.

Herbalife CEO Johnson first heard about nutrition clubs three years earlier, he says, when certain distributors were complaining about them. The critics thought they amounted to retail outlets, which are forbidden under Herbalife's rules. (Retail outlets undermine any MLM's structure by allowing the distributor who opens one to steal other distributors' customers.)

Johnson and Walsh went to look at a club in Zacatecas, Mexico. "I remember Des and I looking at each other," Johnson says, "and thinking, What's wrong with this? Daily customers? Daily consumption? A community model? They were celebrating people's birthdays and weight loss, and the feeling was just incredible. I said, 'Boy, if this isn't a potential future for our company I don't know what is.'"

WHY ALL PYRAMID SCHEMES EVENTUALLY FAIL



The simplest pyramid scheme is the chain letter. Suppose the initiator recruits five people to pay a sum to join.

And each of these five finds five new recruits ...

... who do the same.

People at the top do well—but inevitably, lower tiers fail ...

... because by the 12th level, the scheme needs participation from nearly the entire U.S. population ...

... and by the 14th level, it would need more participants than planet earth can supply.

Nutrition clubs effectively allowed Herbalife to reach lower-income customers—because they required only a $5-per-day payment rather than, say, a $39.90 purchase of a 30-serving canister of Formula 1. Today there are about 6,000 nutrition clubs in the U.S., and more than 35,000 in Mexico.

They became particularly popular in Spanish-speaking communities of the U.S. As of 2009 about 64% of Herbalife's U.S. distributors were Latino. (Today, according to the company, the percentage has dropped to only 36%—a figure Ackman scoffs at, asserting that it's much higher.)

As successful as the model was, not everyone was thrilled with it. Because the clubs let Herbalife sell its products and business opportunity to lower socioeconomic strata than had been previously possible—more vulnerable populations—a former financial journalist named Christine Richard found them to be diabolical.

By the summer of 2011, indeed, Richard had concluded that a great deal was wrong with Herbalife. Above all, she thought, it was a pyramid scheme. Richard worked for the Indago Group, a research boutique that sold much of its work to short-sellers. Richard's boss at Indago was Diane Schulman, a TV producer turned licensed investigator, and hedge fund types jokingly referred to the two as the Indago girls.

When Richard first spoke to investors about shorting Herbalife, many were wary, she recounts in an interview. "But Christine," she remembers skeptics telling her, "what's the catalyst? Why are regulators going to do something now if they haven't done something in 30 years?" A catalyst is an outside force—a regulator, a journalist, a downturn in the business cycle—that exposes a dirty little secret at a company's core, causing its stock to plummet.

That wasn't the response of Bill Ackman, who was also an Indago client. Though Ackman usually takes long positions, he has occasionally placed short bets, and Richard had written a book called *Confidence Game* about Ackman's most remarkable one. In 2002, Ackman took a massive public short position predicated on the audacious theory that the then triple-A-rated bond insurer MBIA—whose guarantees were propping up the ratings of countless other financial obligations that Wall Street was flogging across the globe—was catastrophically overleveraged and destined to collapse. He doggedly maintained that thesis for five years, weathering ridicule, onerous carrying costs, and even an MBIA-spurred New York State attorney general's probe for stock manipulation (he was exonerated), before tasting sweet vindication in 2007. When the financial crisis hit, MBIA failed, and Ackman's fund made more than a billion dollars.

When Richard took her Herbalife suspicions to him, Ackman recalls, she said, "Bill, I think I found the next MBIA."

His reaction, according to Richard, was not

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"What's the catalyst?" It was, rather, "If this is a fraud, we'll call it out. *We're* the catalyst."

Ackman had his staff start researching Herbalife.

DAVID EINHORN PHONES IN

In August 2011, Herbalife CFO John DeSimone got an email from a former employee who said he'd been contacted by Indago's Schulman, who was asking odd questions.

DeSimone looked Indago up online but didn't get what it did. He called Schulman. She started asking questions relating to one court's interpretation of the so-called Amway rules—the rules that all MLMs claim to follow to keep them from being considered pyramid schemes.

"They were questions that I, personally, didn't know enough to answer," DeSimone says. He told her he'd put her in touch with a regulatory expert if she'd tell him what she was doing, he says. She declined, and the call ended.

On March 23, 2012, Herbalife had an Investor Day event at a hotel in Los Angeles. At lunch afterward DeSimone went from table to table. At one, the woman next to him, who turned out to be Richard, started asking him similar questions. When he asked who she was, she told him she was doing research for the woman next to her, who was an analyst for Greenlight Capital, David Einhorn's hedge fund.

Einhorn is widely revered as perhaps the smartest investor on the Street. As DeSimone knew, he'd recently done a public short against Green Mountain Coffee. DeSimone left the table and alerted CEO Johnson.

Einhorn was scheduled to speak at the Sohn Investment Conference on May 16, an annual event at which a number of top hedge fund managers "talk their book," i.e., present their best ideas, short or long. The company realized he might be preparing a public short.

After its May 1 earnings announcement, Herbalife executives took questions by phone. Up popped David Einhorn's name in the queue. He didn't fit the usual criteria—sell-side analysts or top 15 investors—but, on the fly, DeSimone decided to take his question. If Einhorn was contemplating a public short, DeSimone says, he felt that was material information the public ought to have.

"How much of...final sales are sold outside the network, and how much are consumed within the distributor base?" Einhorn asked. It was a variant of the same questions Richard and Schulman had been asking.

> "I AM UTTERLY CONVINCED BY EVERYTHING IN BILL ACKMAN'S PRESENTATION," WROTE BRONTE CAPITAL'S JOHN HEMPTON IN A BLOG POST. **"EXCEPT THE CONCLUSION."**

Herbalife had no lawyer in the room. Walsh, the company's president, answered: "We don't have an exact percentage, David, because we don't have visibility to that level of detail." He then estimated that "70%" of sales were outside the network, which was wrong. He was thinking of one of the Amway rules, but it wasn't apt.

The mere fact that Einhorn was asking probing questions was enough to torpedo Herbalife stock, dropping it 20%, from $70 to $56.

On May 16, the day of the Sohn Conference at Avery Fisher Hall in Lincoln Center, Herbalife executives gathered in a conference room at their headquarters in the L.A. Live complex, just across from the Staples Center. They had allies inside the hall with open phone lines. One of Einhorn's first slides read "MLM." They braced.

But Einhorn was just messing with their heads. MLM was also the ticker symbol for Martin Marietta, and Einhorn proceeded to present against the construction materials manufacturer. Herbalife had dodged a bullet, and its stock shot up 15%, from $43 to close to $50.

Which posed a quandary for Bill Ackman. He'd been researching Herbalife since the summer of 2011, and when he heard Einhorn's questions on May 1, he'd started deploying a short position that day. He assumed he "could ride Einhorn's coattails," he tells me in one of our interviews. "We didn't want to be the public face of this."

Then Einhorn never surfaced. Ackman deliberated for months whether to go public, he says, preparing possible presentations. "My goal was to make one in July. And then in September, and then in November."

In late October and, again, in late November, says Herbalife's DeSimone, he was alerted to unusual "put" activity—a type of options contract that short-sellers buy—on Herbalife stock. Most of these put buyers were effectively betting that the stock would drop markedly sometime before Dec. 21, 2012, the date when those options would expire.

When CNBC's Kate Kelly announced Ackman's short position on the afternoon of Dec. 19, and that he'd be presenting his thesis the next day, the reason for the put activity seemed evident to Herbalife CEO Johnson. Fifty-five minutes after Kelly's report, he called into CNBC by phone, his fury evident.

"This isn't about Herbalife's business model," he said. "This is about Bill Ackman's business model...This is totally wrong what's taking place...This is blatant market manipulation." (Ackman says he'd purchased no put options at all in Herbalife at that stage. He had simply borrowed common stock and sold it—the conventional short position.)

"THE FERRARI, THE BENTLEY, OR WHATEVER"

Ackman's Dec. 20 presentation was deeply disturbing. There was a lot about Herbalife that was suspicious. Its flagship product, Formula 1, though virtually unknown to Ackman's audience, had recorded sales of $1.8 billion the previous year, surpassing those of Palmolive and Clorox, and falling just shy of Gerber's.

It's "the only $2 billion brand nobody's heard of," Ackman acidly observed.

How could that be? His answer, of course, was that Herbalife's product sales were just empty manipulations of the company's compensation scheme, which revolved around recruiting. At one point Ackman's principal analyst at the time, Shane Dinneen, asked, "Do we even know if any retail customers exist?"

Furthermore, the company's international growth—into 88 countries as of that point—evinced the desperate, exponential expansion of a pyramid scheme poised to collapse, he argued. What the company really sold in all these countries, Ackman explained, was not Formula 1 but a fictitious business opportunity.

Then he played a creepy, officially produced Herbalife video. Doran Andry, a chairman's club-level Herbalife distributor, was leading a tour of his opulent Beverly Hills home. When he first joined Herbalife, Andry said in the video, he was working just "two or three hours a week," and yet after his "very first calendar year," his "income hit $350,000. In my second year, I turned 30 … and our income hit $1.1 million."

"You know, it's really amazing," he continued. "I step out of the Ferrari, the Bentley, or whatever, and people go, 'What does that guy do for a living?' And I go, 'I'm an Herbalife independent distributor,' and people are absolutely amazed."

By Ackman's calculations the chance of reaching president's team was less than 0.04%. And even those who did had a median annual gross compensation of only $337,000—nothing that could support Doran Andry's lifestyle.

The reality, Ackman observed, was that in the previous year (2011), according to the company's own disclosures, Herbalife paid 88% of its distributors nothing at all.

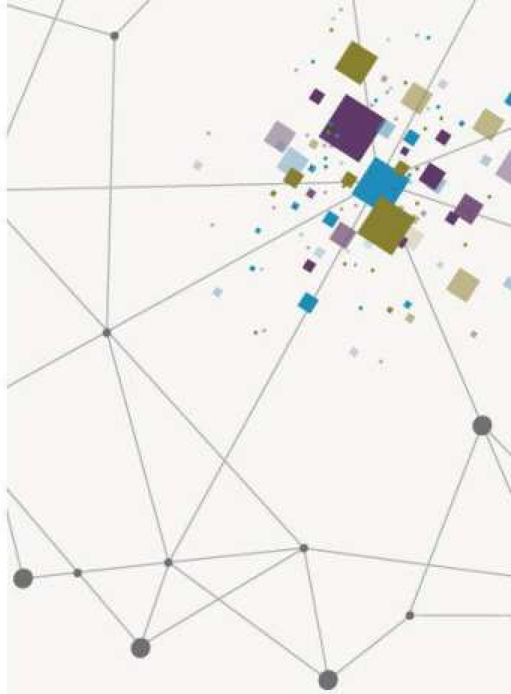
As troubling as the presentation was, some Wall Street observers were skeptical.

The Doran Andry video had been made in 2003—nine years before Ackman's presentation. Subsequently, however, CEO Johnson had started toning down such claims, voluntarily disclosing the average gross compensation the company paid its distributors and requiring that income testimonials include disclaimers (at least in the U.S.) referring to that statement. (Ackman argues that Herbalife's average gross compensation disclosures are misleading. The FTC, for its part, does not require such disclosures, nor explain how comprehensive they must be, if provided. A rule to mandate standardized MLM disclosures was proposed in 2006, but the FTC dropped it in the face of opposition from the MLM industry.)

At the time of the presentation, Herbalife was already a well-known name on Wall Street. It had enjoyed 12 straight record quarters, and its stock had quadrupled in the previous two years. Many investors had done a ton of homework on it—or "due diligence"—and had reached markedly different conclusions from Ackman's. Says one longtime major shareholder, who adds that he'd talked to at least 150 people familiar with Herbalife: "It's a real product that helps fight a real-world problem," i.e., global obesity.

In addition, the showmanship of Ackman's event put some rivals off. Its scale and bravado struck some as "Einhorn-envy"—an attempt to outdo the master.

Then there was the issue of timing. Ackman presented just 11 days before the end of the year, when hedge fund positions are marked to market for the year. His manager's fees would be computed based on those numbers, so the temporary paper profits he'd make from his enormous Herbalife position would window-dress the lackluster year he was having in 2012. Given the



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holiday season, there was no way Herbalife could respond that calendar year. In that context, the bit about Ackman foregoing personal profit struck some as disingenuous.

Still other traders just thought short-selling any MLM was a fool's errand, given their high cash flow and the FTC's longtime tolerance of them. On Christmas Eve, four days after the presentation, Bronte Capital's Hempton took a long position in Herbalife. He explained on his blog: "I am utterly convinced by everything in Bill Ackman's presentation—except the conclusion." (In an interview, Hempton says he now rejects the presentation and believes Herbalife's executives are "highly ethical.")

WHERE ARE THE VICTIMS?

In January, Herbalife executives came to the Four Seasons Hotel in New York to give a 2½-hour rebuttal presentation.

As for the notion that Herbalife was desperately expanding into foreign countries because of market saturation, the company had a simple answer: It wasn't so.

"In fact, 92% of our growth is coming from mature markets," Des Walsh said, displaying the statistics, with "less than 4% coming from new markets—exactly the opposite from the picture Pershing Square is trying to depict."

Walsh then offered evidence of consumer demand while asserting the genuineness of the business opportunity.

After Einhorn asked his questions in May, the company had had a reputable corporate survey firm, Lieberman Research Worldwide, perform two 2,000-person surveys. They reached nearly identical results, estimating that close to 6 million American households had used Herbalife products during the previous three months and that 90% of those households were "outside the network," i.e., no one who lived there was a distributor. (Purchases by people outside the network are the best evidence of consumer demand, because they can't be motivated by a desire to manipulate the compensation plan.)

While Ackman was correct that 88% of Herbalife distributors were not paid any commissions by Herbalife in 2011, Walsh acknowledged, that was because, as the company had always maintained, the lion's share of distributors—levels one through four—join mainly to buy products at a discount, not expecting to earn anything. While some do earn modest income from retail sales, such income isn't included in Herbalife's gross average compensation disclosures, since it isn't money paid by Herbalife.

His contention was backed by still another survey, he maintained, which had concluded that 73% of distributors join Herbalife "primarily" to buy products at a discount, including 44% who said they joined "solely" for that purpose.

> "PRICEWATERHOUSE PUT THEMSELVES IN A POSITION WHERE THEY WILL BE ONE OF THE DEEP POCKETS **WHEN THIS THING GOES DOWN,"** SAYS ACKMAN.

People who did pursue the business could really make it, Walsh insisted, though it did require very hard work. Unlike a pyramid scheme, where only the early entrants get rich, Herbalife—then starting its 33rd year—was still minting new president's team members each year, with the numbers trending up, he said. In 2012 it had made 46 of them in the U.S., compared with just 18 in 2005, according to the data he displayed.

One last sign that Herbalife had real customers, Walsh argued, was the low rate at which recruits availed themselves of the company's buyback policy. Herbalife had long offered to buy back 90% of unopened products for a year—the industry standard. In May 2012, seven months before Ackman's attack, it had bumped that up to 100%. (In 2013 it would also begin paying return shipping costs. Herbalife may now have the most generous buyback policy in the MLM industry.)

If thousands of dollars worth of product were stacking up in distributors' garages, one would expect disenchanted distributors to take advantage of the buyback policy. Yet the rate of buybacks was low and had steadily dropped throughout the Michael Johnson years. It fell from 2.4% in 2002, before Johnson arrived, to 0.35% in 2012, when Ackman struck—to 0.04% in 2014.

Where were the victims?

That, indeed, was the question the consumer protection agencies were asking Ackman.

"What the regulators told us," Ackman recounted to me, "is we focus on cases where there are victims. We would like to speak to victims."

Ackman believed victims weren't filing complaints because they felt embarrassed, felt guilty (for having recruited others into the scam), or, in the case of undocumented immigrants, feared going to authorities for any purpose.

So he began to look for victims. "The problem is," he continues, "the Latino community is not interested in talking to a hedge fund manager." So he hired politically connected consultants, who approached community organizations, like New York's Hispanic Federation.

"So the Hispanic Federation said, 'Look, we can help you find the victims through our local chapters,'" Ackman continues. "And we gave them a designated amount of money specific just for the staffing required to help recruit victims." He estimates that sum to have been $130,000. Later he gave additional moneys directly to local organizations for the same purpose. He declines

to estimate the total. At the same time he hired a raft of political consultants to find victims and to approach state attorneys general and other public officials in California, Connecticut, Illinois, Massachusetts, Nevada, New Mexico, and New York.

"HE'S TRIED TO MAKE IT A CRUSADE"

"I've really sort of had it with this Ackman guy," Carl Icahn told CNBC's Scott Wapner. It was late January 2013, and the famed activist investor, who was then reported to have taken a small stake in Herbalife, called into CNBC's *Fast Money Halftime Report* at a point when Ackman was already on the line.

"I went to a tough school in Queens," Icahn continued, "and they used to beat up the little Jewish boys. He was like one of these little Jewish boys, crying that the world was taking advantage of him." Icahn went on to recount a dinner he once had with Ackman after which, he said, "I couldn't figure out if he was the most sanctimonious guy I ever met in my life or the most arrogant."

Icahn was giving his version of a decade-old dispute that led to a nine-year litigation between Ackman and him. Ackman had prevailed, winning $9 million.

Ackman responded in kind, asserting that Icahn "is not an honest guy, and this is not a guy who keeps his word. This is a guy who takes advantage of little people."

As traders apparently tuned in to gawk at these titans mud wrestling, trading volume on the three major exchanges dipped nearly 23%, according to a CNBC analysis of Thomson Reuters data.

We now know that Icahn started assembling a modest long position in Herbalife on the very day of Ackman's 2012 presentation. Three days after the spat, Icahn started buying more. A lot more. In mid-February he disclosed a nearly 13% stake in the company.

The support of Icahn and his $37 billion vehicle, Icahn Enterprises, was transformative for Herbalife. At the time, Ackman belittled Icahn's involvement as personal and impetuous, referring to Icahn as a "back-of-the-envelope" investor.

"That's nonsense," says Icahn in an interview with *Fortune*. "I thought the stock was very undervalued," he says. "I still do. All this [other] stuff is off-base and ridiculous."

"I've made up with him," Icahn notes, referring to his relationship with Ackman today. "We're friendly. But he got stuck in it, and he's tried to make it a crusade."

Beyond the fact that one of the nation's shrewdest investors had now shown confidence in Herbalife, Icahn's involvement posed a technical peril for Ackman: the short squeeze.

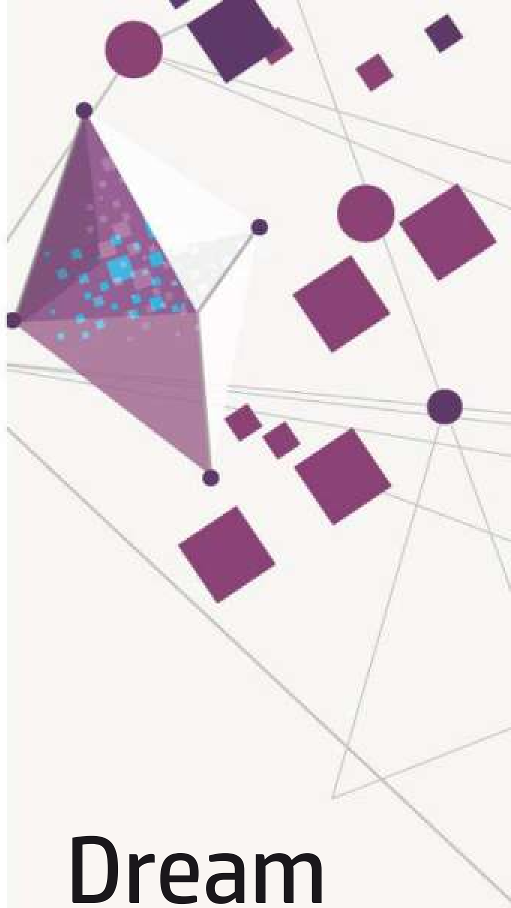
A short squeeze is a feedback loop that occurs when excess demand for a stock pushes the price up, pressuring short-sellers to cover their positions, which requires them to buy stock, which further pushes the price up, and so on.

As Icahn continued buying—today he owns 18.4% of the company and has negotiated effective control over five of its 13 board seats as well—the danger of a short squeeze was becoming acute.

At the time the other biggest buyer was the company itself, which had long been pursuing stock buybacks as a corporate policy. In January and February it bought back stock worth $160 million and began looking for financing to buy more than $1 billion worth more.

Then fate granted Ackman a weird reprieve. It came in April 2013, when the FBI photographed senior KPMG partner Scott London accepting an envelope full of cash from a golf buddy at a Starbucks in the San Fernando Valley. London was quickly arrested for insider trading: For years he'd been tipping off his friend about clients' upcoming financial statements. (London pleaded guilty and, in April 2014, was sentenced to 14 months.)

As it happened, London was the signing partner on two corporations' audits—Skechers and, yes, Herbalife. Though KPMG had no reason to believe anything was amiss with the statements, it said, London's conduct meant it had to withdraw approval for several years of financials for both companies.



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Without audited financials, Herbalife effectively couldn't borrow, and it had to shelve plans for more buybacks.

Herbalife hired Pricewaterhouse-Coopers and said it aimed to have the statements reapproved by the end of the year.

Ackman set out to block that from happening. In late August he wrote the accounting firm a 52-page letter, raising 10 categories of allegedly faulty accounting by Herbalife, as well as several potential conflicts of interests on Pricewaterhouse's part. In one of nine follow-up communications to the accountants, Ackman noted: "Let's not forget that Arthur Anderson was destroyed rightly or wrongly by its perceived implicit approval of Enron's business. As such, I believe that history will judge PwC's approach to this important matter."

In December the accounting firm reapproved the financials anyway.

"I was surprised," Ackman says. "Pricewaterhouse put themselves in a position where they will be one of the deep pockets when this thing goes down."

Meanwhile Ackman was trying to blunt the impact of Herbalife's rebuttal presentation of January 2013. He argued that Herbalife's surveys, purporting to verify consumer demand, were too small to be authoritative. Since Herbalife's rules require distributors to keep paper records of their retail sales in case of audit, Ackman demanded that Herbalife call in all those records from its 550,000 distributors and make them public. He even offered to have Pershing Square foot the costs.

Herbalife declined the invitation—"untenable, impractical, and unrealistic," Des Walsh told me—but did perform additional, more extensive surveys and analyses. A masked, unbiased Nielsen survey of 10,525 people performed in May 2013 concluded that close to 8 million consumers had purchased Herbalife products over the previous three months, of which 87% were outside the network. And in June, a survey of 1,349 distributors, designed by former FTC economist Walter Vandaele, concluded, "An estimated 97% of the Herbalife product volume purchased by distributors represents retail sales for end-use consumption."

Later still, the company hired Joseph Farrell, who directed the FTC's bureau of economics until just seven months before Ackman's attack, to analyze distributor purchasing patterns. In a 67-page report, previously unreported, he found "genuine consumer demand" and "no evident dependence on unsustainable growth." On the whole, purchase patterns were consistent with distributors filling consumer orders rather than aiming for qualification targets.

Investors were understandably skeptical of any company-ordered surveys. So several funds did their own. One longtime major investor told me he commissioned a blinded, high-data-point, randomized survey asking a wide variety of questions. The results basically lined up with Herbalife's, he said. "Say what you will," he comments, "you may think the stock's overpriced, you don't think it's a good business opportunity, or whatever. It's impossible to argue there isn't a product."

This investor also said he wondered why Ackman, having spent $50 million on the campaign, hadn't performed any surveys of his own.

I asked Ackman this. "Surveys are notoriously unreliable," he responds. There's no substitute for seeing the distributors' actual retail records, he insists.

> "YOU MAY THINK THE STOCK'S OVERPRICED, YOU DON'T THINK IT'S A GOOD BUSINESS OPPORTUNITY, OR WHATEVER," SAYS ONE MAJOR INVESTOR. **"IT'S IMPOSSIBLE TO ARGUE THERE ISN'T A PRODUCT."**

THE FOUR SUPER-SIZE PUTS

The year 2013 was all Herbalife's. In July, George Soros's fund disclosed a large stake in the company—one of the fund's three largest holdings. While Ackman could discount Icahn's involvement as personal, Soros Fund Management was known for deliberate research and had waited months before acting.

Ackman hit back hard, telling the *New York Post*'s Michelle Celarier that he was "very disappointed" in Soros for "trying to profit on the backs of low-income Latinos," and that he had written the SEC alleging improper attempts by Soros's fund manager to collude with others at a pitch meeting. The charge appears to have gone nowhere.

In any case, it was soon clear that other sophisticated investors were either buying major stakes in Herbalife or holding on to the ones they'd had when Ackman launched his attack. In September former Ralston Purina CEO Bill Stiritz took a big stake (and still owns about 7% today). Fidelity and Vanguard retained most of their preexisting stakes (now holding 13.8% and 4.6%, respectively), and Capital Research bulked up a previous holding (to almost 17%).

By September 2013, Herbalife stock had climbed into the $70 range. To limit his fund's exposure, Ackman began redeploying about 40% of his bet from short sales of stock into purchases of put options. This effectively maintained the short bet but placed the fund at less risk if the stock kept rising.

Early in 2014, the contest seesawed back in Ackman's direction, sending the stock price downhill. First, on Jan. 23, Sen. Edward Markey, a longtime consumer advocate, wrote long letters to the FTC and SEC urging inquiries of Herbalife. Shares in the company were walloped, plunging 10% to about $66. Ackman had met with Markey's staff the

previous October—one of about 15 congressmen to whom he or his staff had spoken.

Herbalife suspected, once again, market manipulation. According to its consultants, four "super-size" put trades had been made during the seven trading days preceding the Markey announcement. They affected 6.5 million shares, cost $63 million to buy, and increased in value by $22 million by the end of trading on Jan. 24.

Markey's press secretary declined to comment on whether the senator's staff had given Ackman any inkling that he'd be writing a letter. Remarkably, after the letter came out, Markey told the *Boston Globe* he hadn't even known that Ackman was short-selling Herbalife at the time he signed it.

"This whole market manipulation notion is absurd," says Ackman, spilling out a litany of reasons why: He did not know when a letter would be coming out or whether it would be public; only one of the put trades was his, and it was part of the transition from his being short the stock to having put options; he'd have made more money on paper if he'd not made the switch; the put options were long term, so not the sort of contract you'd buy to capitalize on an event; and finally, he never exercised any option to realize any profit. (Herbalife complained to the SEC about these puts in March 2014, but the charge has languished.)

The best news for Herbalife in 2014 was a 4,400-word *New York Times* article on March 10, which catalogued the sometimes covert and clumsy efforts of Ackman's contractors and subcontractors to dredge up victims. Several cookie-cutter consumer complaints—26 of them, according to a later *Wall Street Journal* article—had been written to the Connecticut attorney general George Jepsen, for instance, but Jepsen told both papers he'd been unable to substantiate a single one. When the *Times* tracked down the letter signers, some claimed not to remember having written them. One of Ackman's paid political consultants had met with Latino and African-American community leaders to discuss the Herbalife threat without disclosing her connection to Ackman, and another had herself written a complaint to the FTC, again without disclosure.

To Ackman's political consultants, their activities may have looked like a conventional, if cynical, "Astroturfing," where a client's agenda is made to look like a grass-roots movement. In the context of a short-selling campaign, however, such conduct began to resemble securities fraud. The SEC has held that if you make claims about a company you're trading in and then falsely publish them under someone else's name, that can be market manipulation, even if you believe the claims to be true.

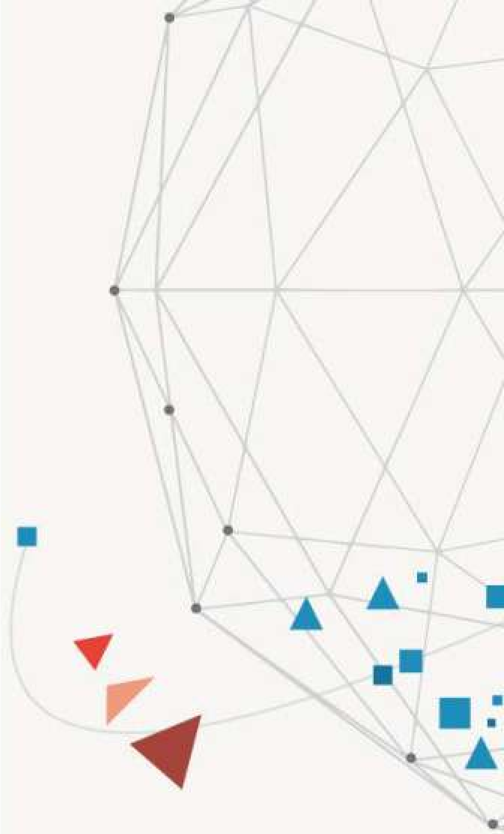
The *Times* article may have had a lasting impact on perceptions of Ackman's battle—drawing attention to the potential excesses of activist short-selling—but its market impact was short-lived. That's because three days later Herbalife disclosed that the FTC had opened a formal investigation into whether it was a pyramid scheme. Its stock plummeted 17% before ending the day down 7.4%, at $60.57.

Herbalife shares were further pummeled in April when, in the space of six days, it was reported that the company was under investigation by both the U.S. Department of Justice and the Illinois attorney general. The bad news for longs got still worse in November, when Herbalife announced its third-quarter results. After 19 straight positive quarters, the company missed on both earnings and volume guidance. Its stock fell nearly 30% over the next two days, to $39.78.

Herbalife blamed the poor results on foreign currency fluctuations and the short-term impact of some new distributor rules. Ackman hailed the news as showing that Herbalife had exhausted its mature markets and that its modest efforts to curb fraud were crippling its ability to do business.

Given its dire state, he predicted, banks would refuse to replace Herbalife's $1.15 billion revolving credit line when it expired in early 2016.

After the *Times* article exposed the scale and organization of Ackman's



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campaign, Herbalife went shopping for a communications strategist to lead a coherent response strategy. In August it hired Alan Hoffman, a former deputy chief of staff to Vice President Joe Biden, as executive vice president for global corporate affairs. (Hoffman had previously worked closely with Terrell McSweeney, another former high-level Biden staffer who is now an FTC commissioner.) Then, in October, Herbalife hired former FTC commissioner Pamela Jones Harbour to head its 550-employee compliance department. Each hire represented a vote of confidence for the company, as had, in late 2013, the additions of two eminent Hispanics to the board: former surgeon general Richard Carmona and former undersecretary of state for human rights Maria Otero. (In April 2015, former comptroller of the U.S. Air Force Michael Montelongo also joined the board.)

> "I'VE REALLY SORT OF HAD IT WITH **THIS ACKMAN GUY,**" CARL ICAHN TOLD CNBC.

The year ended on an important up note for the company. In December a Los Angeles federal judge approved the settlement of a class action against Herbalife that had been brought on behalf of all 1.5 million U.S. distributors who had worked for it since 2009.

Company critics had been projecting damages in the $700 million to $1 billion range, but now the case was going away for just $17.5 million, of which $5 million would be awarded to the attorneys. Though 93% of class members were personally notified of the suit, just 0.5% filed claims—embarrassingly meager even by class-action standards.

The dismal result underscored the recurring question: Where were the victims? While Ackman had produced numerous individuals who appeared to have been taken to the cleaners by unprincipled distributors, at the statistical level the evidence just wasn't jelling. (A group of 18 objectors—16 of them supplied by a Waukegan, Ill., activist who has been helping Ackman find victims—is appealing.)

"I HOPE YOU'RE LISTENING, MICHAEL"

After his original presentation, Ackman put on three more. But the sequels were largely duds, or worse, in the market's eyes.

In the second, in November 2013, four victims were interviewed. But they all described being victimized by a lead-generation business. It was one of just two that still existed in 2012, accounting for less than 1% of the company's revenue, according to Walsh. In fact, the victims all said they'd been burned by an outfit that, as it happens, had been banned by Herbalife two weeks before Ackman's attack. (The outfit was run, however, by a distributor who had also headed Newest Way to Wealth a decade earlier. At a minimum, it could be argued, the company should have been watching him like a hawk.) Herbalife finally banned all lead selling or buying in June 2013.

The third presentation, in April 2014, alleged that Herbalife's methods of doing business in China violated Chinese law, which forbids MLMs. A tough slog, the presentation struck some as peripheral to the pyramid-scheme allegation. They saw it as "thesis creep," which, as one major investor commented to me, "is one of the worst things you can have in this business."

At the last event, in July 2014, Christine Richard made a presentation on nutrition clubs. By this time she'd left Indago to form her own boutique, whose sole client was Ackman. After visiting more than 240 nutrition clubs in several countries, she said, she had concluded that naive, often undocumented immigrants were being defrauded into something resembling indentured servitude by predatory, distributor-led, company-countenanced training programs. Trainees were allegedly being induced to generate artificial business for an existing nutrition club—dragging friends and family to show up, while shelling out money to pay for their shakes.

About two hours into the presentation, Ackman became choked up as he spoke of his own family's humble immigrant past. Wiping away tears, he said: "I'm a huge beneficiary of this country, okay? Michael Johnson is a predator, okay? This is a criminal enterprise, okay? I hope you're listening, Michael. And it's time to shut the company down."

Richard's research was disquieting. But Ackman had fatally overhyped it, promising it would deliver the "death blow." As soon as it became clear that there was no smoking gun, the stock began to rise. It ended the day up 25%, at $66.77—the stock's largest single-day jump ever.

Richard's presentation was "nonsensical," Des Walsh asserts. "The beauty of clubs is you could go in and sit in a corner and see for yourself. When you see police officers and firemen and the neighborhood barber, and mothers from the neighborhood come in with their babies ... she would know it's not true."

As part of its response to the FTC inquiry, the company commissioned two documentary filmmakers to make a movie about nutrition clubs. The hour-long film, previously unreported, depicts owners and participants at nine clubs in Miami, New York, and Los Angeles. Herbalife claims that it gave the documentarists a list of 30 clubs in each city and then let them proceed from there on their own. The movie shows grateful patrons, thankful for the life-transforming weight loss they've achieved, and salt-of-the-earth club owners, from many ethnic groups, grateful to Herbalife for giving them a prideful alternative to washing dishes

or cleaning other people's apartments. More than once, individuals thank Herbalife for saving their lives.

THE ENDGAME

This year, so far, momentum has continued in Herbalife's favor. The company resumed hitting its numbers in the first quarter of 2015. Then, in March and again in April, the *Wall Street Journal* reported that Manhattan federal prosecutors had interviewed some of Pershing Square's contractors, probing possible false statements made to state attorneys general and in research underlying Ackman's China presentation.

"As far as I know," Ackman told me, "nothing ever came of it. We certainly have never received any subpoenas, and the DOJ has not expressed any interest in interviewing any of us about any of that stuff."

Ackman counterpunched in April, stating at a conference that senior Herbalife executives had "hired or are looking to hire their own criminal defense counsel"—an allegation Herbalife categorically denies. The company's lawyers fired off another letter to the SEC alleging market manipulation—its third. At the same time, however, Herbalife disclosed in May that federal prosecutors had recently sought information from the company, certain distributors, and others regarding their business practices.

In April a consortium of banks extended Herbalife's revolving credit facility, notwithstanding Ackman's prediction that they wouldn't. ("I think I was effectively correct," says Ackman. The banks required a paydown of debt, extended the loan for only a year, and imposed more onerous terms. "The banks want out ... in the worst possible way.")

Herbalife CFO DeSimone says the company wanted a temporary credit arrangement until the overhang of the FTC probe lifted, when it would be able to negotiate better terms. "If the banks wanted to get out," he says, "they could have done so and been fully paid in March. Instead, all 10 banks—plus a new one—unanimously approved extending the deal. It was a huge vote of confidence for the company."

Herbalife's latest quarter, announced Aug. 5, brought still more positive numbers, sending the stock up 24% over the next three days, to $60.77. Now, after marketwide China-related corrections, it's trading in the mid-50s.

For him to break even on his bet, Ackman estimates, the stock has to dip to the low 30s. Meanwhile he is paying about $100 million annually to maintain his position, he acknowledges. The Herbalife short position represented a 3.7% loss for Pershing Square for the first six months of this year, the fund reported last month.

At times during our conversations, Ackman seemed to be preparing for the possibility that the FTC might clear Herbalife on the top count: the pyramid-scheme rap that started the whole ball rolling. Still, he never betrayed a hint that he might pull out.

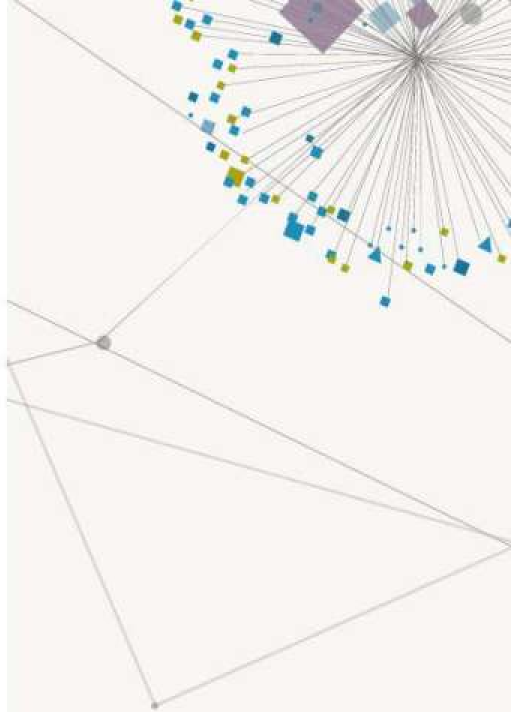
Which all makes one think back to that bomber's ejection seat standing so temptingly in the corner of one of Ackman's conference rooms. What would it take for him to push the red button at this stage?

The truth is—and Herbalife hates to admit this—Ackman's campaign has already forced a number of positive changes at the company: Herbalife has finally banned lead-generation businesses; it has upgraded its buyback policy to best in class; it has enhanced its disclosures and disclaimers; and it has taken more responsibility for its nutrition club training programs. It is quite possible that the FTC, thanks to Ackman's pressure, will soon order additional consumer protections.

The problem for Ackman is that improving the company wasn't the goal. The goal was to destroy it. So for him all these small victories add up to failure: a loss of money and a loss of face.

That, in turn, makes one wonder whether hedge fund managers with outsize egos, reputations on the line, and billion-dollar stakes make the best regulators. And whether, on the basis of their private, closed-door deliberations, they should be sentencing public companies to death. F

FEEDBACK *letters@fortune.com*



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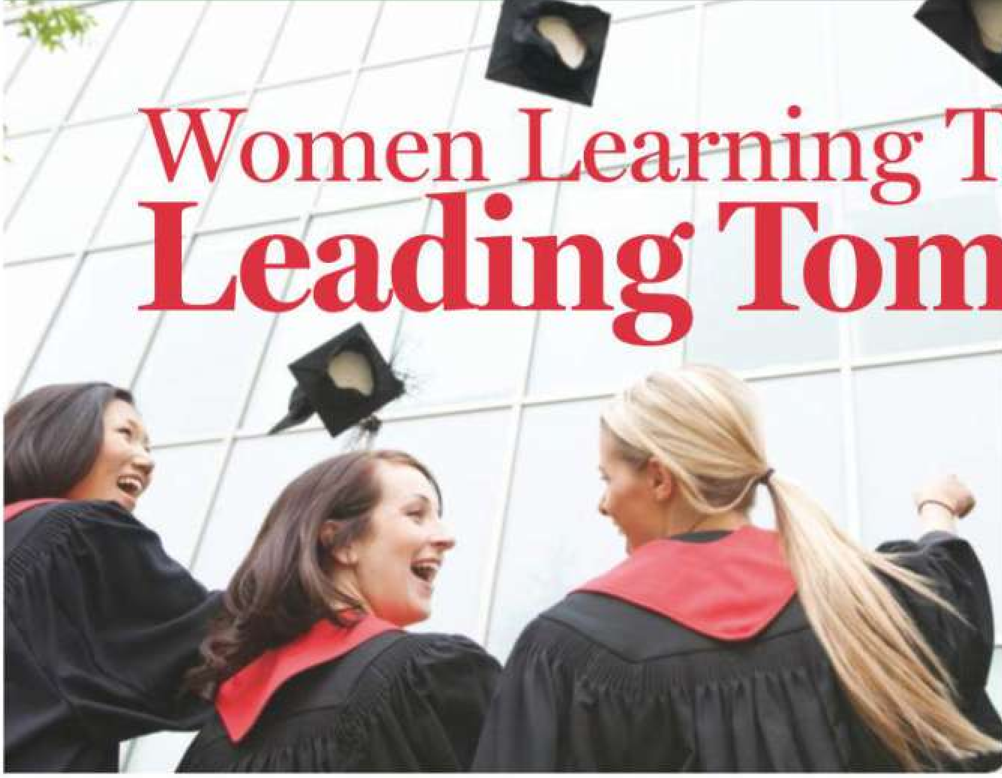

KELLY DOUGLAS EARNED an online master certificate in applied project management from Villanova University in 2010, paving the way for her position as an assistant vice president at Rabobank in Roseville, Calif. So it was only logical, she says, that when she needed to learn more about her new assignment involving data warehousing, this is where she returned.

"I had such a good experience with the first online course and found it so useful in my career," Douglas says. Last October, she enrolled in Villanova's online Business Intelligence Master Certificate program and again the payoff was immediate. "There were pieces of what I was learning in the course that I was able to apply to my day-to-day work right from the start," she says. "I was able to ask better questions and learn from the other students in the course."

Women still comprise less than 40% of MBA students in the U.S., but a growing number of colleges and universities are offering executive education courses for women to boost their careers once they're in the workforce.

Cheri DeClercq, assistant dean for MBA programs at Michigan State University's Eli Broad College of Business, says that as women's careers progress, many fall behind not only in pay but also in the opportunities they seek. "It's not about talent or ability: it's a confidence issue," DeClercq says.

To help reverse that, MSU offers an Executive Leadership for Women program designed for female professionals who have been in the workforce for at least eight years. The intensive four-day course focuses on negotiating, leadership strategies, effective networking, and personal brand-building. For professionals who need the flexibility of an online course, MSU offers certificates in strategic leadership and management as well as strategic negotiation.

Duquesne University in Pittsburgh ranks No. 2 among top universities in the country for the percentage of women enrolled in an MBA program (65.5%), behind No. 1–ranked University of North Carolina at Greensboro (65.9%). Still, according to Dean B. McFarlin, dean and professor of management at the Palumbo-Donahue School of Business at Duquesne, more needs to be done. "Business schools can play a critical role in preparing women for senior leadership positions when they focus on collaboration and provide students hands-on opportunities to tackle real problems, challenge convention, and overcome stereotypes," he says.

Duquesne develops ethical business leaders who possess an entrepreneurial mindset, understand sustainability principles, and know how to make change happen. Students enhance their practical wisdom through consulting projects, international fieldwork, innovative classes, and an engaged network of successful alumni.

"An executive MBA distinguishes leaders and prepares them for success in the C-suite," says Leslie Petty, assistant dean of Wisconsin evening and executive MBA programs at the University of Wisconsin–Madison's Wisconsin School of Business. Wisconsin's 20-month executive MBA offers team-based learning with global perspectives to provide the leadership and networking experiences working executives need to advance. Petty adds, "Women executives benefit from the invaluable mentoring, networks, and resources of fellow leaders to ascend higher."

Accordingly, the C-suite should become a sweet spot for women execs.

Women comprise less than 40% of MBA students in the U.S., but a growing number of colleges and universities are offering executive education courses for women.

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We welcome and encourage your feedback. Please contact **LegalLeaders@alm.com** with your comments or suggestions.

Stacy D. Phillips PROTECTING YOUR FAMILY MATTERS

Stacy D. Phillips is a Certified Family Law Specialist, founder and Managing Principal of Phillips Lerner, a full-service family law firm in Los Angeles. Proud of her history of achieving notable results for her clients, Stacy knows that divorce and family matters change life's course.

"Over the 30-plus years of my legal career, I have gained insight into how justifiably powerless, frustrated and out of control many people become when going through the divorce experience," Stacy says. "I am constantly reminded that how we treat others, conduct ourselves, and communicate during difficult times can alter the path of our lives and the lives of others."

Phillips Lerner's clients are predominantly high net worth individuals, many of whom are business owners, corporate executives and entrepreneurs. To successfully guide these clients through such emotionally charged matters, Stacy provides assertive representation and an uncompromising work ethic, fostering relationships based on trust and personalized attention.

"I chose the complex area of family law because it provided me the opportunity to do the work I loved, with each case having a distinct heartbeat. My wish as a family law attorney is to make a positive difference by helping my clients get through an incredibly difficult time and also help them reshape their lives," she reflects.


Stacy D. Phillips

Stacy is especially mindful of advising clients to settle disputes reasonably, keeping children out of any legal, emotional or psychological wars. She truly believes that "no one is more vulnerable to becoming a casualty than the child who innocently gets pulled into a war."

Stacy and her colleagues at Phillips Lerner have advanced the firm's ethos beyond the courtroom through many charitable endeavors. Each year since 1999, the firm's Adopt-A-Center Program selects a local non-profit organization that benefits women, families and children. The firm plans, underwrites and hosts an event specially tailored to the selected non-profit, in addition to raising funds and volunteering their time with the organization.

"What sets us apart is that we're a firm with heart. We care deeply about our clients, our colleagues, the court system, and the community," Stacy says. "That compassion has truly made all the difference."

Stacy D. Phillips is the author of "Divorce: It's All About Control. How to Win the Emotional, Psychological and Legal Wars," now in its 7th printing.

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Sitting left to right: Caroline Bercier, Rachael McClure, Stephanie Roberts, Jessica Zafonte, Laura Chubb, Sandra Kuzmich, Ph.D., and Erika Selli.
Standing left to right: Laura Fanelli, Janice Ye, Elizabeth Murphy, Leann Clymer, Ying-Zi Yang, Ph.D., and Laura Krawczyk.
Not pictured: Marilyn Brogan, Kathleen Ehrhard, Ph.D., Vicki Franks, and Erin Lawrence.

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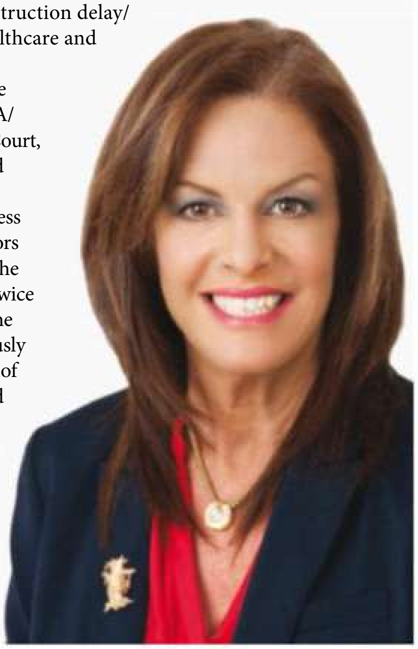
ATD MEDIATION & ARBITRATION, P.A.

Cindy Niad Hannah, Esq. is President and CEO of ATD Mediation & Arbitration, P.A. She has mediated & arbitrated over 7,500 disputes since becoming a neutral in 1993. Her Alternative Dispute Resolution practice largely consists of complex commercial, class action, employment discrimination/FLSA, ADA, consumer fraud, wrongful death/personal injury and premises liability claims. She also concentrates on admiralty/Jones Act, banking/collections, insurance coverage, construction delay/defect, property damage, medical malpractice, healthcare and nursing home disputes.

Cindy is a Florida Certified Circuit Civil & Appellate Mediator, a Panel Mediator and Arbitrator on the AAA/ICDR Rosters, and is a Mediator on the U.S. District Court, Southern District of Florida's Panel. Cindy has traveled nationally and internationally to resolve disputes.

Cindy was honored to be voted by the Daily Business Review as one of the top three South Florida Mediators since the award's inception in 2012, 2013 and 2014. She is also a member of JAFCO's Board of Trustees, has twice been selected by the Boy's and Girl's Club as one of the 100 outstanding Women of Broward County, previously served as a member of St. Thomas Law School's Inns of Court and on the Executive Council of The Legal Aid Service of Broward, Inc.



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An accomplished family law attorney, Angela M. Dowdle has handled divorce, custody and other family law cases for over two decades. She is a formidable advocate for her clients, while keeping the best interest of the children in focus.

Ms. Dowdle received her law degree from the University of Texas, and is also a Certified Public Accountant. In addition, Ms. Dowdle is a skilled Mediator, using her business expertise and legal experience to assist parties in settling all types of litigation.

Ms. Dowdle served as Assistant District Attorney, Magistrate for the 33rd/424th Judicial District Drug Court, President of the Highland Lakes Bar Association, as well as a speaker/panelist for the Highland Lakes CASA program. In addition to a private family law and mediation practice, Ms. Dowdle continues to take court appointments to represent children in foster care and is a past scholarship recipient of the Texas Supreme Court Children's Commission.

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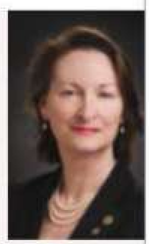
BARBARA M. PIZZOLATO
ESTATE PLANNING



For nearly three decades, Barbara M. Pizzolato has put her clients first. She has assisted thousands of families and business owners with their estate planning, trust administration, probate, and business planning needs. As their "lawyer for life," she establishes long-lasting, personal relationships with her clients.

Receiving her Juris Doctorate from New York Law School (1987), she now practices in Florida (2002), New Jersey (1987), and New York (1988). Leaving a primarily litigation practice in Manhattan in 1993, she started her own practice in 1994. In 2002, she relocated her family and the main office, Barbara M. Pizzolato, P.A., to Southwest Florida, focusing on estate planning and business planning.

Ms. Pizzolato is a member of WealthCounsel®, American Academy of Estate Planning Attorneys, American Bar Association, New York State Bar Association, Lee County Bar Association, Florida Association of Women Lawyers, Lee County Estate Planning Council, and Rotary South of Fort Myers.

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Danica Little

Danica Little is an accomplished attorney, CPA, and owner of Danica Little Law, PLLC in Charlotte, NC.

Guiding clients through their legal matters and being their trusted advisor for life is Little's passion. "Client loyalty is driven by providing clients with top notch legal representation - it is important to always be your best and on top of your practice," said Little. She is a NC Board Certified Specialist in Estate Planning and Probate Law (a distinction held by less than 1% of NC attorneys) and is rated AV Preeminent® (Martindale-Hubbell's highest rating).

As a highly respected Trusts and Estates Lawyer, Danica advises clients regarding estate planning, special needs planning, estate administration, estate disputes, tax planning, trust administration, and business matters. Danica works with business owners, athletes, authors, lawyers, physicians, CPA's, executives, high net worth individuals, and families with special needs. She is licensed to practice law in NC and SC. Danica has published numerous articles on estate planning, estate administration, estate, gift and income tax planning, and asset protection.

Little served as President of the Charlotte Women's Bar and Chair of the Tax Section of the Mecklenburg County Bar. Little earned a Masters of Accountancy degree and a Juris Doctorate, Magna Cum Laude. She is a Certified Public Accountant (C.P.A.), Certified Management Accountant (C.M.A.) and Certified Financial Manager (C.F.M.). Danica was named "40 Under 40" by Charlotte Business Journal, "Women Extraordinaire" by Business Leader Magazine, and "Rising Star" by Thompson Reuters Super Lawyers.

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Chaya Kundra – Kundra & Associates, P.C.

An accomplished tax attorney, Ms. Kundra brings to the table powerful and assertive representation to solve federal, international and state tax issues and to prevent future tax controversies. In 1999, she founded the tax law firm Kundra & Associates, P.C. Through the span of Ms. Kundra's legal career, she has consistently focused on tax litigation and tax controversy matters affecting U.S. businesses and individuals within and outside U.S. borders. Ms. Kundra has successfully litigated and settled numerous civil and criminal tax cases, resolved a number of tax audits, controversy matters and structured various business entities.

Before starting Kundra & Associates, Ms. Kundra worked at the Office of Financial Enforcement, U.S. Department of Treasury, where she focused on money laundering issues and violations of the Bank Secrecy Act. Among Ms. Kundra's professional honors are being included in *Washington D.C. and Baltimore's Women Leaders in the Law* for 2012 and 2015, receiving the *Best Lawyers* Award for 2013, 2014 and 2015 as well as 2016 Edition of *Best Lawyers in America* in the area of Tax Law. She has been selected as a Woman of Outstanding Leadership for 2015 by the *International Women's Leadership Association.* From 2013 - 2015, Ms. Kundra was recognized in *Fortune's Women Leaders in the Law* and received recognition from the *National Association of Professional and Executive Women* as "Woman of the Year" in Tax and Law for 2007, 2008 and 2015. In 2014, *U.S. News & World Report* included Kundra & Associates in Best Law Firms. Ms. Kundra was also awarded the *National Association of Entrepreneurship's* 2011 First Generation Entrepreneur of the Year, the Circle of Excellence in 2011 and *Super Lawyers* in 2009. In addition, Ms. Kundra is also involved with organizations such as Green Peace, the National Geographic Society, and the American Civil Liberties Union. She is a Fellow of the American Bar Association and the Montgomery Bar Association.

Ms. Kundra is a former chair and current member of the Employment Tax Section, Civil and Criminal Penalties Section for the American Bar Association. She is also a member of the Inns of the Court for the U.S. Tax Court and Co-Chair of Day One of the Maryland Advanced Tax Institute. Some of her additional professional memberships include the US Tax Court Inns of Court, the Civil and Criminal Penalties division of the American Bar Association, the National Asian Pacific American Bar Association, the Indian American Bar Association, the Tax Section for the Maryland State Bar Association, the Montgomery County Bar Association and the Maryland State Bar Tax Controversy Study Group. Finally, Ms. Kundra also gives time to the Montgomery and Prince George's County Tax Study Groups and is a member of the Women's Bar Association of Maryland.

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Chaya Kundra

Houghton Vandenack Williams

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Mary E. Vandenack is founding and managing partner of Houghton Vandenack Williams. An original founder of Parsonage Vandenack Williams in 2005, Mary led a successful merger with her former firm and Houghton Whitted Weaver in 2014.

Vandenack's areas of expertise include tax law, high net worth estate planning, asset protection planning, business succession planning, and tax-exempt entities. A noted legal speaker and writer, Mary is a commentator for the tax publication, Leimberg Services.

Mary is recognized nationally as a legal innovator and technologist in addition to her success in her substantive practice areas. Mary was the recipient of the 2015 James I. Keane Memorial Award, recognizing excellence in e-lawyering and was recently nominated for the College of Law Practice Management InnoVaction award, which recognizes extraordinary innovative efforts.

Mary has been active in the national bar, serving the Law Practice Division as an Executive Council Member and as Features Editor for the Law Practice Magazine. Mary is currently serving on the American Bar Association Futures Commission as well as the Youth at Risk Advisory Commission and is active in the Real Property, Trusts and Estates Section.

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BETSY A. FISCHER

FAMILY AND ELDER LAW

Betsy A. Fischer has 23 years of experience in handling family law matters. Betsy is not only a seasoned lawyer, but also a published author of the book entitled *Divorce in Louisiana: The Legal Process, Your Rights, and What to Expect*, demonstrating her depth of knowledge in this complex field. Betsy is a skilled negotiator and litigator, who represents individuals in all facets of domestic relations.

She received her Juris Doctorate and Masters of Business Administration from Loyola University.

Betsy is a member of the Children's Law Committee of the Louisiana State Bar and is certified to represent children in Child in Need of Care cases. She is a certified family and juvenile mediator.

Betsy strives to assist her clients going through divorces by providing support and clear direction in the sometimes complex journey through divorce. She finds both personal and professional satisfaction by encouraging, educating and empowering her clients.

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OUTTEN & GOLDEN LLP

is honored that three of its partners, Wendi S. Lazar, Kathleen Peratis, and Tammy Marzigliano, have been recognized as "Women Leaders in the Law."

Outten & Golden focuses on representing individuals in employment, partnership, and related workplace matters. The firm counsels individuals on employment and severance agreements, handles complex compensation and benefits issues (e.g., bonuses, commissions, and stock and option agreements), and advises professionals (e.g., accountants, doctors, and lawyers) with contractual and strategic issues. It also represents employees with discrimination and retaliation claims based on sex, race, disability, national origin, religion, age, sexual orientation, and gender identity and expression, as well as retaliation, whistleblower, and contract claims. The firm's many class and collective actions include claims based on gender- and race-based discrimination and violations of wage-and-hour laws or the WARN Act.

Outten & Golden has nine practice groups:
Executives & Professionals, Financial Services, Sexual Harassment & Sex Discrimination, Family Responsibilities & Disabilities Discrimination, Lesbian Gay Bisexual Transgender & Queer Workplace Rights, Discrimination & Retaliation, Whistleblower Retaliation, Class & Collective Actions, and WARN Act.

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From top to bottom: Wendi Lazar, Kathleen Peratis, Tammy Marzigliano

EVA BRINDISI PEARLMAN

PERSONAL INJURY

Eva Brindisi Pearlman, practices in the field of civil litigation, with an emphasis on personal injury law. She has handled thousands of civil cases and has secured millions of dollars in settlements for her clients, many of which have been won through participating in alternative dispute resolution (ADR), such as mediations and arbitrations.

She was born in Utica, New York. She graduated with a Bachelor of Science Degree in Accounting from LeMoyne College, Syracuse, New York and with a Juris Doctor Degree from University of Richmond Law School, Richmond, Virginia. After law school, she continued her education and graduated with a Masters of Law in Taxation (LLM) from University of Baltimore, Maryland, Graduate Tax Program.

She was selected to the New York State Super Lawyers in 2011, after being nominated and evaluated by her peers as having attained a high-degree of peer recognition and professional achievement.

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Marisa Ybarra

Trial attorney at Ray, McChristian & Jeans

Marisa Ybarra has been recognized as a 2015 Rising Star by Texas Super Lawyers Magazine. Marisa has gained prominence as an outstanding young trial attorney by efficiently and effectively representing businesses, business owners, insurance companies, railroad carriers, automotive, trucking, and construction companies. She has represented Fortune 500 companies in a variety of business disputes and discrimination/employment cases. Marisa handles high-exposure cases from their inception to trial and beyond. She has successfully resolved high-exposure cases through arbitration, mediation, and motion practice in State and Federal Courts. Over the last two years, Marisa has successfully tried employment, catastrophic/personal injury, and wrongful death cases for railroad carriers, premises owners, construction, and defense contractors. Her dynamic and energetic style in the courtroom has yielded defense verdicts in multi-million dollar cases in Plaintiff friendly venues.

Marisa is a frequent speaker and has presented at the National Association of Railroad Trial Counsel (NARTC), National Business Institute (NBI), and local organizations, including the Hispanic Chamber of Commerce.

While a student, she interned at the Texas 8th Court of Appeals and for two United States District Judges in the Western District of Texas. Prior to law school, she enjoyed a career in politics where she worked for political campaigns ranging from the President of the United States to local school board races.

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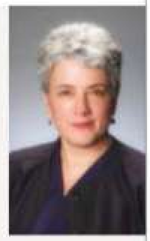
MICHELLE F. RIDER, CPA, ESQ.

COMMERCIAL AND BUSINESS TRANSACTIONS



Michelle F. Rider, CPA, Esq. is a partner in the mid-Hudson Valley law firm of Catania, Mahon, Milligram & Rider, PLLC, with offices in Newburgh and Fishkill, New York. CMMR is a mid-sized firm with 23 attorneys handling a variety of practice areas (www.cmmrlegal.com; 845-565-1100).

Ms. Rider heads the firm's transactional practice group and concentrates her practice in the areas of corporate law, commercial and financial transactions and business succession planning. Michelle has substantial experience negotiating business mergers, sales and breakups.

As a result of her previous public accounting and in-house experiences, she brings a financial and business perspective to her legal representation to provide a comprehensive advisory approach to her client's transactions and issues.

Michelle is deeply committed to her community, serving as the current Chairwoman of the Board of Trustees of St. Luke's Cornwall Hospital and having served on multiple other local and regional boards.

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Rutkin, Oldham & Griffin, L.L.C

Sarah "Sally" Stark Oldham has more than 35 years' experience working with families in Connecticut. Since 1988 she has focused on matrimonial law. Her partnership with Arnold Rutkin, which began in 1994, draws upon this extensive career, helping clients address the financial consequences of divorce while recognizing the psychological impact of the process on those involved. Her deep understanding of family issues goes far beyond her legal training. For a decade before she entered the practice of law, she was a school psychologist in various Connecticut public schools, as well as in private practice in Westport. At Rutkin, Oldham & Griffin, L.L.C, Ms. Oldham handles dissolutions of marriage involving complex financial, custody and visitation issues. She has lectured on topics as diverse as valuing stock options and complex executive compensation packages in divorce, the impact of addiction in custody battles, and the validity of prenuptial agreements in a world where most couples cohabit before marriage. She is also experienced in post-judgment matters, especially relocation cases. She is a recent past-president of the Connecticut Chapter of the American Academy of Matrimonial Lawyers, an organization dedicated to promoting professionalism and excellence in the practice of family law.

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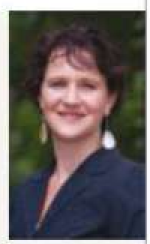
TAYLOR H. HALEY

CIVIL LITIGATION, LAND USE AND ZONING



With a state wide practice centered on the Georgia coast, Ms. Haley practices in the areas of land use and zoning, housing law, and civil litigation focusing on contract and real estate disputes. She also acts as an outsourced general counsel, managing all legal needs for businesses and families.

Ms. Haley serves on Georgia's State Personnel Board (appointed by Governor Nathan Deal), the U.S. District Court, Southern District of Georgia's Court Advisory Committee, the University of Georgia School of Law's Alumni Council, and the State Bar of Georgia Committee on Judicial Procedure. She has been selected as a Super Lawyers/Georgia's Top Lawyer Rising Star from 2012 to 2015.

Ms. Haley is admitted to practice in all courts in the State of Georgia, as well as the federal district courts in the Northern, Middle, and Southern Districts of Georgia, the Eleventh Circuit Court of Appeals, and the U.S. Supreme Court.

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Sheila Biehl
Sheila Biehl, P.A.

Sheila Biehl is an accomplished trial lawyer who is Board Certified by The Florida Bar as an expert in Business Litigation. This distinctive honor and certification received in 2011, demonstrates her expert knowledge in business litigation, her proven courtroom skills, and the respect of her peers. Attorney Biehl also holds Martindale-Hubbell's highest AV Preeminent rating, a significant rating accomplishment.

Attorney Biehl, a former shareholder in a large Florida law firm, established her own firm in March of 2000. She has many years of experience in complex commercial and business litigation, negotiations, mediation, arbitration, and trials in federal and state courts.

In addition to her commitment to providing excellent legal services, Attorney Biehl has given back to her profession and community by having served in numerous leadership roles, including past president of the Martin County Bar Association, past chair for The Florida Bar 19th Circuit Grievance Committee, and past president of the Humane Society of the Treasure Coast.

Sheila Biehl is passionate about providing appropriately aggressive legal representation that will skillfully and strategically navigate the challenges of our complex commercial and business world.

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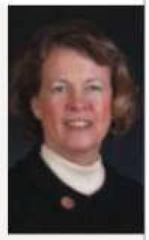
DIANE BALTZELLE MCWHIRTER
PROBATE, BANKRUPTCY



Diane Baltzelle McWhirter, a Florida native, has served Central Florida through her probate and bankruptcy law practice since 1983. She graduated from Duke University and the University of Florida, Law School.

Combining 32 years of litigation experience with 24 years experience as a Florida Supreme Court certified Mediator, Attorney Diane McWhirter's mediation training includes skill development in facilitating agreements using complex negotiations.

In 2015, Diane McWhirter received the "Nation's Top One Per Cent" award from the National Association of Distinguished Counsel. AVVO Lawyer Rating Guide assessed her legal abilities as "superb." Martindale-Hubbell Peer review Rating System, classified her as "Distinguished" and "Highly Rated" in both her legal abilities and ethical standards. In 2014, American Society of Legal Advocates named her as a Top 100 Bankruptcy Attorney for Florida. Diane McWhirter's client awards include the "10 Best 2014 Client Satisfaction Award" from the American Institute of Bankruptcy Attorneys.

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THE KELSEY LAW FIRM
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Ms. Kelsey is a 2015 BV Peer Review Rated attorney, having received recognition for her very high standards in legal ability and ethics. Ms. Kelsey obtained her undergraduate degree at the University of Maryland University College, where she graduated magna cum laude in 1988. Thereafter, she obtained her J.D. at Georgetown University Law Center in 1992 and was later admitted to practice law in Maryland, District of Columbia, Federal and Supreme Courts.

She is a member of the District of Columbia, Maryland State, Prince George's County and J. Franklyn Bourne Bar Associations, where she is currently serving her 4th term as Treasurer and Scholarship Committee Chair.

For more than 20 years, she has practiced general civil law, including bankruptcy, collections, estate planning and administration, guardianship, workers' compensation and personal injury matters. She is also sole counsel to the Prince George's County Department of Social Services Child Abuse and Neglect Appeals Division.

Ms. Kelsey has presented to local and national attorneys through the DC, Women's & National Bar Associations and is scheduled as a faculty member in an upcoming webinar presented by the American Bar Association on September 22.

Ms. Kelsey also holds a Real Estate Broker license and as an adjunct professor, she has taught real estate transactions, ethics, legal research and writing and bankruptcy in addition to assisting with the re-write of course modules following the major bankruptcy reform in 2005.

Ms. Kelsey is committed to upholding the standards of the legal profession and has participated as a panel attorney for both the Maryland Judicial Nominating Committee (2007-2015) and as a Peer Review Attorney for the Attorney Grievance Commission (2003-2015). Ms. Kelsey also regularly assists the public by volunteering in court Alternative Dispute Resolution and local church pro bono events.

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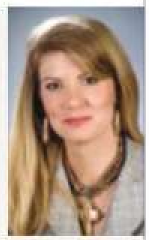
MS. LORALEE HUNT, ESQ.
PERSONAL INJURY AND BUSINESS LITIGATION



Ms. Loralee Hunt, Esq. practices law in Roswell, New Mexico. She focuses on representing individuals and small, family owned businesses. She has accomplished significant work in the area of contracts, wind leases, land purchases/sales, corporate shareholder/member disputes, as well as, personal injury litigation. She is a noted trial lawyer. She is AV Preeminent Rated is regarded as an "excellent ethical lawyer" with "great client communication, legal writing, and litigation skills" and a "gallant advocate for her clients." Specific to wind development, Ms. Hunt focuses her efforts on representing land owners and providing practical advice regarding land wind leases. Her office is located at Hunt Law, PC, 116 E. Country Club, Roswell, New Mexico 88201 and she can be contacted at (575) 623-1976 or by email loraleehunt@cableone.net.

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YC ST YOUNG CONAWAY STARGATT & TAYLOR, LLP

Attorneys at Law

For over 50 years, the attorneys of Young Conaway Stargatt & Taylor, LLP have been involved in the most significant bankruptcy, corporate and intellectual property law matters in the State of Delaware. The firm's clients include national and international corporations as well as innovators and entrepreneurs. Young Conaway attorneys are leaders in various pro bono initiatives, court committees, and bar groups.

Pauline Morgan serves as Chair of the firm's Bankruptcy and Corporate Restructuring Section and is a member of the firm's Management Committee. She has been practicing business bankruptcy law for more than 25 years. Her success in representing debtors and secured and unsecured creditors in some of the nation's largest Chapter 11 bankruptcy cases has led to her recognition by Chambers *USA* and *The Best Lawyers in America®* as a leading bankruptcy practitioner in Delaware. She was a recipient of the *2014 Turnaround and Transaction of the Year Award: Mega Company* by the Turnaround Management Association for her work on the Eastman Kodak chapter 11 cases in the Southern District of New York. Recently, she was inducted as a Fellow of the American College of Bankruptcy. Ms. Morgan has also served on the District Court Advisory Committee for the United States District Court for the District of Delaware, and was appointed by the Chief Judge of the Third Circuit Court of Appeals to serve on the most recent Merit Selection Committee for bankruptcy judges in the District of Delaware.

Anne Gaza, a partner in the firm's Intellectual Property Section, has been successfully litigating cases for 18 years. She represents national and international clients in significant intellectual property and commercial litigation in Delaware's state and federal courts. She also serves as a neutral arbitrator through the American Arbitration Association. She has been recognized by Chambers USA, *The Best Lawyers in America®*, *IAM Patent 1000*, *Benchmark Litigation*, and Delaware Super Lawyers for her work in intellectual property litigation. Her diversity initiatives have garnered her a 2015 Multicultural Leadership Award from the National Diversity Council. She is also Delaware State Chair and a Fellow in the American Bar Foundation and a Fellow in the Litigation Counsel of America. Ms. Gaza is a member of the Board of Bar Examiners for the State of Delaware and serves as co-chair of the firm's Diversity Committee.

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KIMBERLY A. HURTADO

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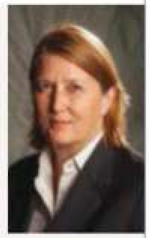

Kimberly A. Hurtado, CM-BIM, is the Managing Shareholder of Hurtado Zimmerman SC, Counselors at Law, and an Adjunct Professor at the Frank Lloyd Wright School of Architecture. Her practice is focused in the areas of domestic and international construction, real property development, and financing of public infrastructure and public-private partnership (P3) projects. Ms. Hurtado has served on the Governing Committee of the ABA Construction Forum, is a Fellow and served on the Board of Governors of the American College of Construction Lawyers, and is a member of the US Army Corps of Engineers Industry BIM Advisory Committee. She is named in the International Who's Who of Construction Lawyers, Litigation Counsel of America and Martindale-Hubbell's Bar Register of Preeminent Women Lawyers. She provides best practices advice on lifecycle Building Information Modeling (BIM), 3D printed structures, and sustainability/LEED® analysis, creating contracts that foster dispute avoidance and cost-effective project management.

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JANET JOHNSON

CRIMINAL DEFENSE

Janet Johnson is committed to aggressively defending people accused in all criminal matters in state and federal court. In practice since 1994, she is a member of the Florida Bar, The Federal Bar, The Colorado Bar, as well as the Florida Association of Criminal Defense Lawyers. She has been on the faculty of the FACDL "Blood, Breath & Tears" annual DUI seminar. Ms. Johnson appears as a legal commentator on *CNN, HLN, GMA, Fox News*. She has been awarded the very highest possible rating, the AV preeminent® rating from Martindale-Hubbell® and was named a fellow to the prestigious Litigation Counsel of America.

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SHEILA A. MILLAR

ADVERTISING & PROMOTION, PRIVACY, DATA SECURITY AND DIGITAL MEDIA

Sheila Millar counsels corporate and association clients on advertising, privacy, product safety, and other public policy and regulatory compliance issues. She works with clients to navigate the array of federal and state requirements related to contests and sweepstakes. Ms. Millar has special expertise in all areas related to the sale, advertising and marketing of children's products, and has appeared at Federal Trade Commission (FTC) workshops on advertising literacy and children's privacy.

Ms. Millar is a vice chair of the International Chamber of Commerce (ICC) Marketing and Advertising Commission, and chairs its Working Group on Sustainability. She has represented the ICC at intergovernmental meetings discussing environmental marketing. She is a frequent speaker and author, and is AV® Preeminent™ Rated by Martindale-Hubbell.

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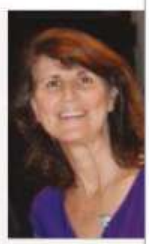
LAURA K. SCHILLING, JD, CPA, CSA & CFP®

ESTATE ATTORNEY & WEALTH MANAGER



Laura K. Schilling founded both Laura K. Schilling, Esq., CPA and CSA®, Estate Innovations, LLC, and Financial Innovations, LLC. Laura is licensed to practice law in both Georgia and Florida. Laura has been named in Georgia Trend Magazine as part of its Legal Elite for her legal work in taxes, estates, and trusts. She has also been named as a five time Five Star Wealth Manager Award winner by Atlanta magazine. Laura has been published in Forbes magazine as well as other magazines such as Best Self Atlanta. She also has taught a class for Bisk education for CPAs.

Clients benefit from Laura's legal, accounting, and financial planning expertise. This diverse background enables her to review a client's financial situation from many different perspectives.

Laura holds a BBA degree in accounting from Emory University and a J.D. from the Georgia State University College of Law, where she graduated cum laude.

Laura has served on the board of directors of the Brookhaven Boys and Girls Club and is active in numerous civic and community organizations. She is a member of the Georgia Society of CPAs, American Institute of Certified Public Accountants (AICPA), and the Georgia and Florida Bar Associations.

Laura is well known for her active referral network of business professionals, enabling her to link clients, friends, and colleagues to valuable resources and services they need.

A native of Long Island, NY, Laura has lived in Atlanta for over 25 years. She is active in both her children's lives, and enjoys museums, travel, and cultural events.

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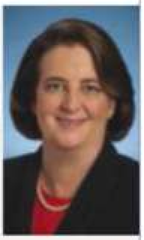
DAWN B. DEBOER
DIVORCE AND FAMILY LAW



DAWN B. DeBOER has devoted the last 29 years to family law and related issues. She graduated *magna cum laude* from James Madison University and received her Juris Doctorate degree from the University of Richmond School of Law.

Ms. DeBoer has been named a Virginia Business Legal Elite for more than ten years, and a *SuperLawyer*. She was appointed Commissioner in Chancery to assist Courts in overseeing equity matters, including divorce trials.

Ms. DeBoer aggressively represents her clients on divorce, custody, support, and equitable distribution of property. She handles partnership and business valuations, and complicated marital estates. She strives to obtain a good result for her clients without the necessity of litigation. However, when the matter demands Court involvement, she fiercely advocates for her client's rights, utilizing her skills to zealously represent her clients. Ms. DeBoer's goal is financial security for her clients and the best interests of the children.

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KAHBO DYE-CHIEW
IMMIGRATION LAW

KahBo Dye-Chiew is an immigration attorney in Honolulu, Hawaii. During her 25 years of experience in this field she has earned the respect and admiration of her peers and her clients.

KahBo has been selected by her peers for inclusion in *The Best Lawyers in America* in the field of Immigration Law annually since 2006. She was named *Best Lawyers®* 2014 Immigration Law "Lawyer of the Year" in Honolulu. She has been consistently named one of Hawaii's best immigration lawyers by *Honolulu Magazine*. Her law firm, established in 2008, has also been identified as a Tier I firm in Honolulu, Hawaii for Immigration Practice by *U.S. News – Best Lawyers*. KahBo was elected to serve as Chair of the Hawaii Chapter of the American Immigration Lawyers Association. She has been invited to make numerous presentations related to immigration law to the Hawaii Employers Council, the University of Hawaii, Hawaii Pacific University, and other professional, religious and community organizations.

An immigrant from Malaysia who initially entered the United States as an international student, she is dedicated and committed to helping her clients realize their own dream of working and living in the United States. KahBo notes, "I am honored to have the opportunity to represent so many clients who have made and will continue to make unique and amazing contributions to the United States."

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SUSAN BOGART
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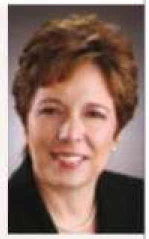

The Law Offices of **Susan Bogart** provides personalized representation to business and government leaders and managers and licensed professionals, including senior level executives, officers, directors, shareholders, partners, medical and healthcare professionals. Clients seek the firm's counsel when they need a high level of experience in complex litigation in the federal and state courts in civil and criminal matters. Ms. Bogart has many years of successful, high- profile, complex trial, investigative and appellate experience including as a former federal prosecutor, white-collar criminal defense and in employment laws including discrimination and laws governing the duties of board members, officers and directors. The firm also negotiates employment agreements, severance packages and related documents.

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JANETTE G. LEONIDOU
CONSTRUCTION

Janette G. Leonidou is a recognized construction litigator. A practicing attorney for more than two decades, she has been selected as a California Super Lawyer each year since 2009. She has also enjoyed Martindale-Hubbell's AV Preeminent rating since the late 1990s.

Ms. Leonidou has litigated countless construction disputes relating to complex public and commercial works. The types of projects involved in the matters she handles include high-rise buildings, hospitals, auditoriums, pipelines, waste water treatment plants, highways, schools and museums.

Her no-nonsense and creative approach has yielded multi-million-dollar results for her plaintiff clients and complete, no dollar paid defense results for clients against whom claims have been made. She is a highly sought after lecturer on construction issues and has served as President of the Board of the Legal Aid Society of San Mateo County and on the governing board for the Fund for Justice Endowment. Ms. Leonidou is a 1991 graduate of U.C. Hastings College of the Law, where she also was a teacher's assistant and worked as an extern for the Ninth Circuit U.S. Court of Appeals.

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ELIZABETH A. HORAN, ESQ.,
MEDICAL MALPRACTICE DEFENSE, TRUSTS, ESTATES, AND ELDER LAW

Elizabeth A. Horan, Esq., a founding member of McHenry, Horan & Pilatsky, PLLC, (1983) of Oyster Bay, NY is an AV rated attorney. The firm specializes in civil litigation, defending medical professionals and facilities and represents both plaintiffs and defendants in other areas of General Liability. Graduating with honors from Vassar College, she received her J.D. from Hofstra Law School. She is admitted to the New York State Bar and multiple districts of the Federal Court system. She has successfully tried cases in the 5 downstate counties of New York and in Dutchess and Albany Counties. She has authored appellate briefs and has successfully argued before the Appellate Divisions in New York State. Elizabeth lectures on a variety of litigation topics at National, State and local Bar Associations and multiple medical seminars. She has an interest in Elder Law and Estate Planning. Ms. Horan is bilingual in English and Spanish.

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Florence J. Murray is a partner at the largest family-owned plaintiff law firm in the U.S.; Murray & Murray Co., L.P.A. Located in Sandusky, Ohio, the firm handles cases throughout Ohio in both state and federal courts, as well as national class actions. Along with her father, brothers, sister, and four cousins, Florence is a civil trial attorney dedicated to helping the injured.

With Masters Degrees in both Special Education and Business, Florence is particularly well qualified for some of the more unique cases that she handles. She handles cases involving injuries caused from civil rights violations, including of educational rights for special needs students; sexual crimes committed against children; trucking and other motor vehicle collisions; and, negligent hiring. She also handles railroad injuries and wrongful termination cases.

Rated an AV Preeminent attorney by Martindale-Hubbell, Florence has also been designated a Rising Star by Super Lawyers for three consecutive years.

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PATRICIA C. FOSTER

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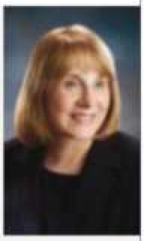

Patricia C. Foster, Esq. PLLC provides comprehensive legal services to the financial services industry. The firm's clients include registered investment advisers, broker-dealers and mutual funds. This boutique firm provides guidance on complex regulatory matters with an emphasis on governance, compliance and risk management. The firm assists clients in the development of corporate compliance programs based on a comprehensive risk assessment process, and provides guidance in connection with regulatory examinations. Ms. Foster assisted the National Society of Compliance Professionals (NSCP) in the development of its Certified Securities Compliance Professional (CSCP®) program, and is a recipient of the CSCP® designation. Ms. Foster frequently writes and speaks on issues relating to the investment management industry, and is a member of the Editorial Board of *Practical Compliance and Risk Management for the Securities Industry*, a Wolters Kluwer publication. Ms. Foster is a graduate of Syracuse University (B.A., M.A.) and the Syracuse University College of Law (J.D.).

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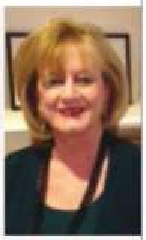
PATRICIA KAY DUBE

GENERAL CIVIL LITIGATION AND INSURANCE MATTERS



Patricia Kay Dube has 36 years of experience in handling general civil complex litigation in federal and states courts and arbitration proceedings in areas that include commercial litigation, products liability, construction defect, professional malpractice, employment, maritime and transportation, insurance disputes and subrogation litigation. Her practice includes handling of excess and reinsurance matters, negotiation of insurance contracts and manuscript provisions, negotiating complex cost sharing agreements, and related insurance matters on a domestic and international basis. She has experience in the London market and has represented foreign underwriters in evaluation and supervision of product liability claims of recognized international corporations throughout the world.

Ms. Dube has consistently been rated AV Preeminent – Peer Review by Martindale-Hubbell for ethical standards legal ability since 1987. She has been a member of the Bar Register of Preeminent Women Lawyers for over 15 years.

Ms. Dube currently practices throughout the state of Texas with Burt Barr & Associates, LLP out of the firm's offices in Dallas and Houston, Texas.

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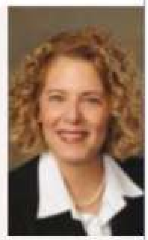
BETH POLNER ABRAHAMS

ELDER LAW AND ELDER CARE/ GUARDIANSHIP MEDIATION



Beth Polner Abrahams is owner of the Polner Abrahams Law Firm. Her practice focuses on elder law, Medicaid planning, estate and special needs planning, guardianship proceedings, and mediation of elder care and guardianship disputes. Beth was admitted to the New York State Bar in 1982; she received her mediation training with, inter alia, the American Arbitration Association (Mediation) and Elder Decisions.

Beth is an active member of the New York State Bar Elder Law and Special Needs Section, serving as co-chair of the Mediation Committee, and helping launch the Nassau County Bar Association's pilot project for mediation of contested New York guardianship disputes. She is a member of the Nassau Bar Association's Alternative Dispute Resolution, Trusts & Estates, and Elder Law Committees, and the New York State Bar's Dispute Resolution and Trusts and Estate Sections. She is currently Chair of the Advisory Council for Nassau/Suffolk Law Services Committee, a civil legal services program for low income persons. In 2009, Beth was recognized for pro bono civil legal work by the New York State Bar Elder Law and Special Needs Section.

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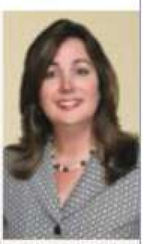
MEDICAL MALPRACTICE, BIRTH INJURIES



Serving others through law in a multitude of ways, Regina Foley is an accomplished attorney and a passionate advocate for victims of negligence. No matter the nature of the complex civil litigation, whether it is medical malpractice, product liability, trucking accidents or other forms of negligence, Ms. Foley has an exceptional track record in helping her clients. She was named a "Super Lawyer—Rising Star" by Philadelphia Magazine in 2005, 2006 and 2007 and a "Super Lawyer" since 2011.

Giving back and involvement in the community are part of Ms. Foley's fabric. She is a volunteer with the Support Center for Child Advocates and has continually maintained active cases for over 10 years.

Ms. Foley is active with the Philadelphia Bar Association, serving as Chair of the Solo, Small and Mid-Size Firm Committee and is a member of the State Civil Litigation Section, Women in the Profession, Medical-Legal and Professional Responsibility Committees as well as the Long Range Advisory Council.

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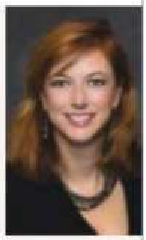

Renée K. Gucciardo, Attorney, with The Gucciardo Law Firm, PLLC, leads a team of legal professionals who are dedicated to resolving family conflicts as amicably as possible and provides personalized attention to each case pertaining to Divorce with minor children, Divorce without minor children, Custody, Parenting Time, Child Support, and Step-parent Adoptions. Ms. Gucciardo has vast experience as a Prosecutor, which has led to a solid foundation with lawyers and judges. Renée is professionally affiliated with the Michigan State Bar Association, The MBA Family Law Section, The Oakland County Bar Association and the Institute for Continuing Legal Education. In 2014 and 2015 Ms. Gucciardo was awarded the prestigious Super Lawyer designation. She has also been listed in the Marquise Who's Who list of Legal Professionals.

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WHILE YOU WERE OUT

Interview With a Lemming

Does the recent market turbulence signal that it's time for them to dive off a cliff? Not yet. But they're keeping a close eye on China. *By Stanley Bing*

I HAD A CHAT WITH one of the senior lemmings in the business world the other day. Why? Because it's pretty clear that it's lemmings that move the markets, and very often people neglect to ask them the proper questions about how they see things.

The lemming greeted me in the den of his burrow, a cozy place festooned with knickknacks. Very comfy furniture. He was a small creature, but as handsome and well turned out as a little rodent could be. His neat fur suit was sleek and shiny, but his itty-bitty button eyes darted this way and that, as if watching an imaginary tennis game. Lemmings are very nervous, as a rule, not only about what might go wrong but also about what might go right—which they won't know what to do with.

"You are a lemming," I began. "I'd just like you to state that for the record."

"Yes. There's nothing wrong with it. We have our way of looking at things, and for the most part things have worked out okay. There are certainly a lot of us here to tell the tale." Here he chuckled good-naturedly to himself and briefly groomed his little whiskers.

"What is it that you're so nervous about all the time?" I inquired. "Many other creatures don't jump at every shadow."

"They're probably right!" he exclaimed. "But we're lemmings! Lemmings always see the worst thing that could possibly happen and then feel like it's already happening. If that's true, why shouldn't we all just jump off a cliff? So we're very afraid, pretty much all the time. And that drives our strategy."

"You would call it a strategy?"

"Certainly! It's as good as any other!" He paused for a moment to scratch his ear very quickly with his hind paw. "Sorry," he said. "Bad habit."

"So, for instance, what are you afraid of now?" I was almost too scared to ask, and my concern was well founded.

"China!" he exclaimed. "And Greece and Puerto Rico and Spain and ISIS and the collapse of Europe and the Fed (no matter which way it goes) and the whole political situation. Goodness!"

I could see his tiny heart was beating fast, and his ears had turned an iridescent pink. "Oh my," he panted. "I have a tremendous urge to fling myself off a precipice. I need to discuss that with about a thousand other lemmings."

"That's interesting to me," I said. "Do you have actual meetings with other lemmings? Or do you just ... all feel the same trepidations at one time and go bonkers and act stupidly together?"

"I think sort of the latter," he said, licking his front paw thoughtfully.

"And where to now?" I asked.

"Well, I don't know," said the lemming. "The truth is, we don't think much about the future. Logically, I'd say there's every reason for optimism. The economy is obviously getting stronger. Everybody wants to put their money in America. Hell, a $20,000 railroad shack in the right location is worth a million dollars if a Russian oligarch or a Google executive wants to live there. So I don't really feel any big push in the lemming community to find a cliff right this minute."

"But the next time a scary piece of news pops up?"

"Oh, we'll freak out," he said sadly. "We did in August. Almost drove the entire world economy over the edge. I'd like to say publicly, in this forum, that we're all sorry about that." He took out a minuscule handkerchief and shined his nose. I could see he was deeply moved. "But we'll do it again the first chance we get," he added, and gave me an impish grin.

I got out of there. But I thought it was an enlightening exchange. You've got to respect the lemmings. They are who they are and they do what they do. The question for each one of us is whether we choose to follow them when they go nuts. If we have a choice, that is. I'm not sure we do.

Follow Stanley Bing at stanleybing.com and on Twitter at @thebingblog.

ILLUSTRATION BY ROSS MURRAY

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